M&G plc
Annual Report and Accounts 2022

Building on our strengths

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"Despite the immense challenges of this volatile macro environment, we've stayed true to our purpose: helping people manage and grow their savings and investments, responsibly."

Edward Braham
Chair

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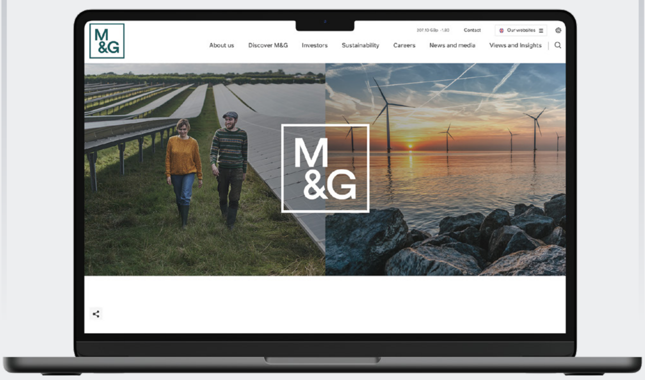

A guide to using this report

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Building on our strengths

"It's an exciting time to join M&G. We have great capabilities and all the foundations in place for long-term, sustainable growth."

Andrea Rossi
Group Chief Executive Officer

Measuring our progress

Financial highlights

KPM APM REM
Adjusted operating profit before tax[i]
£529m
(2021: £721m)

KPM APM REM
Total capital generation[ii]
£(397)m
(2021: £1,822m)

KPM APM REM
Operating capital generation[ii]
£821m
(2021: £1,117m)

KPM APM
Assets under management and administration
£342.0bn
(2021: £370.0bn)

KPM
IFRS result after tax
£(1,619)m
(2021: £92m)

KPM APM
Shareholder Solvency II coverage ratio[iii]
199%
(2021: 218%)

KPM APM
Net client flows (excluding Heritage)
£0.3bn inflow
(2021: £0.6bn inflow)

Key

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

Non-financial highlights

REM
Female representation on the M&G Executive Committee and direct reports
37%
(2021: 35%)

REM
Ethnic diversity within the M&G Executive Committee and direct reports
12%
(2021: 13%)

REM
Net promoter score (Retail and Savings)
+14
(2021 restated: +9[iv])

REM
Employee sustainable engagement score
72
(2021: n/a[v])

REM
Direct carbon emissions: Scope 1 and 2[vi]
1,526tCO_2e
(2021: 1,887tCO_2e)

i Adjusted operating profit before tax is profit before tax excluding short-term fluctuations from investment returns, profit or loss on disposal of business and corporate transactions, amortisation and impairment of intangible assets acquired in business combinations, restructuring and other costs.

ii Total capital generation is the total change in Solvency II surplus capital before dividends and capital movements. 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.

iii Shareholder Solvency II coverage ratio is the ratio of our own funds to solvency capital requirement (SCR), excluding the contribution to own funds and SCR from our ring-fenced With-Profits Fund. The Solvency II position is presented assuming a recalculation of transitional measures in line with management's estimate of market and operating conditions as at the valuation date.

iv Basis of calculation changed from three month to six month rolling average.

v We moved to a new provider for OneVoice surveys in October 2022, including a new question set and new scoring methodology. The 2021 score is therefore not available on the same basis.

vi When reporting totals, market-based emissions are used. Note that the 2021 figure has been restated, see page 76 for details.

A leader in savings and investments

We help our clients to save and invest, through responsible, long-term investment decisions that benefit wider society

Our purpose

To help people manage and grow their savings and investments, responsibly

Find out more about our purpose and how it informs our strategy on page 10

Our values

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.

Our business

£342.0bn[i]
total assets under management and administration
(2021: £370.0bn)

Asset Management

£154.2bn third-party assets managed (2021: £156.7bn)

£149.9bn Retail and Savings assets managed by our Asset Management business (2021: £168.6bn)

£36.5bn assets not managed by our Asset Management business (2021: £42.5bn)

Retail and Savings

Find out more in our business model pages 6-7 and business and financial review pages 20-31

Our international reach

26 Markets globally

37 Offices worldwide

4 Continents

Who we serve

4.8m Retail clients

800+ Institutional clients

i Total AUMA includes £1.4bn (2021: £2.2bn) of corporate assets not recognised within either Asset Management or Retail and Savings.

A conversation with our new Chair and Group Chief Executive Officer

Edward Braham and Andrea Rossi discuss their first impressions of M&G, how they work together, the new focus to our strategy and their ambitions for the company

Q You both started at M&G this year. How has it been?

AR: We've both been busy! I've been getting to know the business, and meeting colleagues, clients and investors to get their perspectives. By engaging with different stakeholders, I now know where our capabilities are strongest and how we can grow M&G, in line with our values.

Our differentiated business model is one of the main reasons why I wanted to join M&G. We have three distinct, yet balanced and complementary parts. We lead with the Asset Manager, the core of our business, it both serves and is supported by Heritage and Wealth – working together, all thrive.

EB: M&G is a great business with strong foundations. It's been a challenging year for many, but for M&G one of achievement and creating opportunity. We've invested in our Board and Executive team, and given a new focus to our strategy so we can build on M&G's fantastic capabilities, central to which are our exceptional colleagues. I've been very impressed with the breadth and depth of talent at M&G, and the drive and determination to succeed.

> This is about bringing our capabilities together to unlock potential and drive our business forward."

Edward Braham
Chair

Q How would you describe your relationship?

EB: We have the same collaborative approach and we complement each other well. Andrea has brought real dynamism to our business. His energy, focus, ambition and track record of delivery are exactly what we need for the next phase of M&G's growth journey. Andrea is very strong on ownership, accountability and delivery...

AR: ...while Edward provides me with vital challenge. We speak almost every day, and we're like good sparring partners, because we help improve each other's thinking through constructive debate. We have reviewed the business and we are absolutely aligned on our ambitions for M&G. We are also clear on what needs to be done to achieve our aims.

Q How important is M&G's purpose to your success?

AR: Our purpose lies at the heart of our strategy – how we take care of savings and investments for our clients for the long term. We live in volatile times, but we have a proud heritage and we are a trusted savings and investments provider for millions of people. We want to be able to provide long-term financial reassurance for clients and help our stakeholders in their transition towards a sustainable future.

EB: The word "responsibly" is widely bandied around, but at M&G it's deliberately chosen. It applies across many different levels and for all our stakeholders: behaving responsibly with our colleagues each day; acting responsibly with our clients' savings and investments; and showing our responsibility for our communities and environment in our products, actions and corporate responsibility programmes.

Q How has M&G's strategy changed?

AR: The strategy hasn't changed, but it now has a sharper focus.

We want to be a business that delivers consistently superior shareholder returns. How will we do this? By being nimble enough to anticipate and respond to our clients' needs, and delivering great service and value. We will achieve our ambitions if we focus on financial strength, simplification and profitable growth.

Leading with our Asset Management business, we will continue to leverage the inherent advantages of our financial resilience and strong balance sheet, and the increasing scale of our Wealth distribution.

We are also working hard to simplify M&G, and to empower colleagues closest to our clients – to drive engagement, improve outcomes and unleash innovation. We are investing in our digital capabilities to ensure we make financial advice more accessible in the UK market, and to deliver strong service to support our clients.

We're confident this strategy will help us deliver in our home UK market, and will also lead to building our profitable international business.

EB: It's about building on our strengths, and making sure our clients stay front and centre of how we do business. We will continue to respond to and address their needs; from innovating with sustainable investments, to digitising our Wealth platform to attract more advisers and drive flows.

Q What are your ambitions for M&G?

EB: I'm convinced we can drive profitable growth for M&G. This is not about being the biggest – it's about bringing our capabilities together to unlock potential and drive our business forward. And by doing this, we will deliver superior returns through attractive dividends and earnings growth.

AR: M&G is a great company, with a bright future. There are lots of opportunities both in the UK and internationally for us to make an impact. I want M&G to be admired as a leader in savings and investments. It's ambitious – but I absolutely believe we can do it.

> Our purpose lies at the heart of our strategy, and informs everything we do."

Andrea Rossi
Group Chief Executive Officer

Leveraging our strengths to drive value

Our differentiated business model, investment expertise, and client-led approach create long-term, sustainable value for all our stakeholders

What we do

As an international savings and investments business, we manage and administer £342 billion of financial assets for the benefit of our clients.

Our clients consist of a broad range of individuals, pension funds, insurance companies, wealth managers, financial advisers and other distribution partners across 26 markets.

We provide a wide range of savings and investments products and services to our clients, who trust us to manage their assets responsibly and help them achieve their financial goals.

We segment our business into Asset Management and Retail and Savings, which reflects the range of propositions and services we offer to our clients.

Our Asset Management business manages more than £300 billion in client assets. We are among the largest managers of private assets in Europe. We are also recognised for our broad public fixed income expertise, a long track record in multi-asset solutions, and a growing range of sustainability-driven thematic equities products.

In Retail and Savings, our PruFund range is one of Europe's largest multi-asset propositions. It provides access to insurance-based solutions such as smoothing, with a distinctive blend of public and private investments, delivering average investment returns of 6.7% a year over the past 18 years.

In addition, M&G Wealth offers a comprehensive savings proposition to UK clients, including investment solutions, portfolio allocation and advice.

Retail and Savings also includes our Heritage portfolio of traditional with-profits and annuity policies.

We use our financial strength, scale and long-term investment horizon to provide security to our clients and enable our investment teams to build new capabilities that enhance financial outcomes.

Clients are at the core of everything we do

Heritage Retail and Savings	Asset Manager	Wealth Retail and Savings
Risk and investment solutions, providing scale and a resilient underpin to the Group	International active investment manager with differentiated high-value investment capabilities	Integrated proposition including PruFund, serving UK clients across the distribution spectrum
Supports client-focused innovation through long-term capital, and is the largest client of the Asset Manager	**Powers the solutions we offer to our clients** providing strong investment expertise and access to private markets	**Enhances access to clients** through strong brands and intermediary relationships
Strong balance sheet and resilient earnings and capital generation	Capital light, with growing fee-based and diversified revenues	Capital light, growing market with high persistency

as we aim to deliver superior shareholder returns

What makes us different

Differentiated business model

We combine the investment expertise of our asset manager and the broad investment needs of the With-Profits Fund to manufacture distinctive investment solutions. The scale, strength and long-term investment horizon of the With-Profits Fund enable our investment teams to develop new sources of investment performance, enhancing the financial returns and range of innovative strategies we offer to our clients.

In the UK, our M&G Wealth savings proposition brings us close to our clients and their advisers, allowing us to develop a deep understanding of their needs and enhancing their access to our products and services.

Recognised expertise in active asset management

We have a long track record in multi-asset solutions, and are also recognised for our broad public fixed income expertise, and our growing range of sustainability-driven thematic equities products.

Underpinned by a strong focus on sustainability, a well-established brand and a broad international footprint, our investment capabilities position us well across a variety of clients.

Aligned to growth markets

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

With an established track record in entering new markets, both in terms of geography and investment capability, and adapting to changes in our clients' needs, we are well placed to deliver growth.

Find out more about market trends on page 8

Attractive financial prospects

We have committed to generating cumulative operating capital of £2.5 billion over the three years to 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 10

The outcomes we aim to deliver

Clients

Strong investment outcomes delivered through innovative propositions that address clients' financial needs.

Find out more about our clients on pages 46-47

Colleagues

A great place to work with growth and talent development opportunities, fully embracing new ways of working.

Find out more about our colleagues on pages 48-51

Investors

Sustainable, attractive returns, with balance of profitable growth and dividends.

Find out more about our financial performance on pages 20-31

Communities

Supporting resilient, inclusive communities through urban regeneration and economic empowerment.

Find out more about our communities pages 52-55

Understanding market dynamics

The savings and investments market benefits from supportive long-term trends, for which we are well positioned, but also faces near-term challenges. We are alert to these dynamics to ensure we stay relevant and competitive

The economic outlook is uncertain

Recent global events have introduced a new level of macroeconomic uncertainty, which makes saving for the future all the more challenging

- Growth in the global economy is slowing as a result of geopolitical tensions, monetary policy tightening and disruption from the pandemic.
- Supply chain issues and energy security concerns have created inflationary pressures, leading to rising costs for businesses and consumers.
- Global investment markets have responded by pulling back from growth sectors against a more volatile backdrop, seeking near-term refuge in less risky assets.

M&G response

- Everyone needs a range of savings and investments solutions that can adapt to changes in their individual situation and the wider economic environment. By investing our clients' money across a broad range of asset classes, we can deliver superior financial outcomes, in line with their needs. Our flagship PruFund Growth fund allows clients to invest in a carefully managed combination of asset classes, while offering a smoothing mechanism to reduce volatility. PruFund Growth has delivered 6.7% in average annual returns over the past 18 years.
- Helping people access financial advice more easily is a top priority for M&G Wealth. We have invested heavily in expanding our range of services to our clients and their advisers: we have added a leading model portfolio service, grown our UK adviser business to 500 advisers, and we are introducing digital features to streamline client data gathering and reduce the cost of advice.

Client needs are changing

We manage money for a broad range of clients across 26 markets. Their investment needs are continually evolving, while technology is transforming the service they expect

Find out more about our approach to clients on page 46

- Despite recent market turmoil, most of our clients continue to seek long-term investment opportunities beyond traditional asset classes, i.e. in private assets, to generate higher, more diversified returns.
- The ubiquitous rise of digital is leading clients around the world to expect seamless, real-time interactions with well-informed specialists.
- Broader availability and generalised use of data are enabling companies to develop a deeper understanding of each client's needs and how they evolve over time. This allows them to reach out to their clients in a more personalised way and offer solutions that better fit those needs.

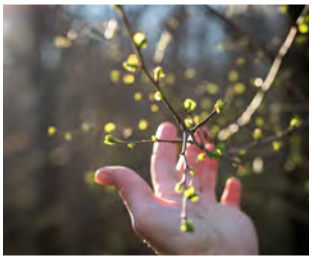
M&G response

- As one of the UK and Europe's leading managers of private assets, our investment expertise is well aligned to areas of high demand. We are also growing capabilities in thematic and sustainable strategies across a broad range of asset classes. Our PruFund Growth fund, with a 27% allocation to private assets, offers individual investors strong exposure to this hard-to-access asset class.
- We are enhancing the digital experience we offer to our clients: this will make it easier and faster for them to get in touch with us, access the money we manage for them and get the information they need. We are also leveraging data to proactively reach out to them about their needs in a more personalised way.

Sustainability is a growing focus

As a major provider of private capital, the savings and investments industry plays a critical role in progressing sustainability issues to deliver positive change for the benefit of the environment, individuals and wider society

Find out more about our approach to sustainability on page 32



- Institutions, such as pension funds and insurance companies, expect asset managers to offer investment opportunities to help them meet their sustainable investing objectives.
- 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. The financial sector has the opportunity to direct capital to companies that will accelerate the shift to a more sustainable economy, and help them to advance their own transition.
- We recognise the scale of change required to transition the global economy to mitigate the effects of climate change and believe that the combined efforts of key stakeholders such as policymakers, corporates and asset managers can make a real impact from a societal and economic perspective. This brings both significant responsibility and tremendous opportunity to M&G as conviction-led, responsible investors and stewards of the long-term savings of millions of clients.

M&G response

- We are continuing to develop our approach to sustainability across the Group, both in how we run our business and in the way we manage assets on behalf of our clients. As a major investor, we also aim to help the companies we invest in to progress their own transition.
- We have set public sustainability targets across our activities, with a focus on climate, diversity and inclusion.
- We are growing our expertise in sustainable investment through the acquisition of impact investment specialist responsAbility, the ongoing deployment of our £5 billion investment mandate (Catalyst) from the With-Profits Fund and the launch of new M&G funds.[i]

Margins are under pressure

The savings and investments industry is under increasing pressure: revenue levels are falling, while investments in technology and asset class expertise remain high

Find out more about our strategy on page 10

- Revenues continue to suffer from competitive pressures and the rise of low-cost passive asset management strategies.
- Investment costs remain high, driven by steady client demand for more global savings and investments solutions, new regulations, growing technology requirements in digital and data and the need to build up capabilities across data science.
- To better meet client demand, companies are expanding their offering along the value chain, attracting higher flow volumes through additional investments and increased running costs.

M&G response

- We focus on markets and segments where we can offer differentiating solutions to our clients, such as private assets in Europe and thematic and sustainable strategies.
- We partner with select technology providers to accelerate our capability build, for instance in hybrid advice.
- We have developed a full-service Wealth business for UK clients to access a broad range of savings solutions, directly through our own advice teams or via other financial advisers. This gives us the opportunity to participate in the economics of the entire savings value chain.

i Such as the Better Health fund and the Diversity and Inclusion fund

Delivering on our strategy

We have a proud history in managing savings and investments, delivering superior outcomes for our clients through our investment expertise and innovative propositions, in line with our purpose

Through the combination of our differentiated business model and a deep understanding of our clients' needs, we offer a broad and distinctive set of savings and investments propositions.

We are investing in our digital capabilities to ensure we make financial advice more accessible in the UK market, and to deliver strong service to support all of our clients.

We use our scale and leading position in the market as a force for good, directing investments to influence positive change. We aim to advance sustainability inside and outside M&G, for all our stakeholders.

Driven by our purpose

Better understand client needs
Apply the knowledge and insights we gain from our clients to better understand their needs and design relevant propositions

Enable our clients
Help people make informed decisions to save and prepare for their future

Deploy digital capabilities to make financial advice more accessible and enhance the support we provide

Our purpose

Help people manage and grow their savings and investments, responsibly

Deliver high-value outcomes
Leverage our broad investment expertise to generate financial outcomes that help our clients achieve their financial goals with confidence

Act responsibly
Allow our clients to invest their savings in a way that supports the transition to a sustainable economy

Deliver on our sustainability commitments, while supporting companies in their own transition

Our strategy

We want to build on our strengths and generate profitable growth, in line with our purpose.

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

Maintain our financial strength

Maintaining our financial strength is essential. Our clients must have confidence in our ability to manage their money and deliver superior outcomes over the long term.

We reward shareholders with attractive and dependable dividends, so we invest carefully, using our experience and expertise, to target high-potential growth opportunities.

Our priorities:

- Deliver proactive financial management
- Maintain strict capital allocation
- Diversify revenues

We have a well-capitalised balance sheet and a resilient earnings profile, supported by predictable and recurring underlying capital generation from Heritage.

We will reinforce our financial strength by successfully executing our growth strategy. Through this, we expect to generate higher and more sustainable earnings, with improvements in operating margins and greater financial flexibility.

Deliver proactive financial management

We will maintain our disciplined approach to financial strength by taking a proactive approach to managing the balance sheet and solvency position.

Maintain strict capital allocation

All capital allocation decisions aim to enhance our financial prospects as well as total shareholder returns.

Diversify revenues

We aim to increase the contribution of our Asset Management business to total earnings, while diversifying revenue sources across clients and geographies, in turn improving the resilience of our revenue model.

Act responsibly

Investing on behalf of with-profits clients to create a more sustainable world

M&G's Catalyst strategy is investing up to £5 billion into innovative privately owned global businesses that aim to tackle some of the world's biggest environmental and social challenges.

In May 2022, M&G became a cornerstone investor in Northern Gritstone, the new investment business focused on university spin-outs. Northern Gritstone's philosophy of "profit with purpose" is aligned with M&G's approach to investing: seeking to combine attractive returns for shareholders with wider positive, societal and economic impact.

Northern Gritstone aims to help academics commercialise ground-breaking scientific ideas, creating new businesses and high-skilled jobs. Alex Seddon, head of M&G's Catalyst team, explains: "British universities have a growing reputation for exceptional research capabilities, successful spin-outs and innovation hubs. The momentum around Northern Gritstone is fuelling a thriving northern venture ecosystem, widening access for investors to back exceptional talent."

Simplify our business

To deliver our strategy and drive improvements that best serve our clients, we need to transform how we operate, while investing to enhance our capabilities.

Our priorities:

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

Simplifying the way in which we operate is essential to our future growth: we want to unlock the potential we have in the organisation by making it easier for our colleagues and partners to team up across the business, work with our clients to design the solutions they want, and deliver them more quickly.

Streamline our organisation

By removing management layers we will reduce the complexity of our decision-making and governance processes. We want to empower our operational teams on the ground, and equip them with the levers they need to steer and grow the business in each country. In turn this will ensure that our propositions are best positioned to meet the needs of our clients.

Digitise and automate

We are enhancing our clients' experience through the use of digital features, to make it easier for them to engage with us. We are automating our processes, to help reduce the time it takes us to serve them. We are also investing in our data and analytics capabilities to better understand client needs, develop relevant propositions and engage with clients in a more informed and personalised way.

Modernise our technology estate

Moving to enhanced agile systems will enable us to expand the range of services we offer to our clients, while better responding to changes to what they need.

"A major focus of our work is encouraging more women to consider data or technology as a career option as the data landscape continues to evolve. I'm so proud we've partnered with Women in Data."

Debbie Kerr
M&G data scientist

Enable our clients

Creating an exceptional place to work

Debbie Kerr is a data scientist at M&G – she was also nominated as a Rising Star in our 2022 Inclusion Awards. She explains her work: "I joined M&G on a graduate scheme and found my home in data. I love the problem-solving aspects of the job and the business challenge of using data to tell impactful stories. My role focuses on delivering products into the hands of our clients, which is varied and challenging.

I also work on developing diversity and inclusion initiatives at M&G. We've made a lot of progress, including our partnership with Women in Data (WiD), using its platform to attract more women to work in data and build a network of support around career advancement in the industry."

Deliver profitable growth

We will focus on targeted opportunities where our differentiated propositions and services give us a strong starting point.

Our priorities:

- Grow external flows in Asset Management
- Deploy a full savings and advice offering in the UK
- Offer innovative solutions to selected defined benefit pension funds

Grow external flows in Asset Management

Our growth priorities in Asset Management centre on our strengths in fixed income and private assets, and increasing demand for thematic and sustainable strategies in equities and multi-assets.

In the UK, we will keep adapting our institutional investment strategies to the evolving needs of pensions schemes as they de-risk. We will also expand our offering to the large distribution platforms and advice networks, as they seek to support their clients.

In Continental Europe, we aim to build on the strength of our Institutional business, where our expertise is well aligned with the needs of pension and insurance clients. We will also work more closely with leading wholesale partners in our target markets, to develop customised solutions that support their own client propositions.

In Asia, we will invest selectively to support longer-term growth, focusing on Hong Kong, Japan, Korea, Singapore and Taiwan. We will build on our existing client relationships and track record by expanding our local distribution reach, while growing our investment expertise.

In the rest of the world, we will serve Latin American pension funds and wealth distribution partners out of our office in Miami. We aim to grow our South African business, in which we own a majority share. We are also looking to strengthen our ability to serve Middle Eastern sovereign wealth funds.

Across our six investment hubs around the world, we will continue to develop innovative investment strategies and solutions:

- We aim to expand our long-established fixed income expertise, building on our global platform and extensive experience in managing Group assets.
- We will strengthen our private asset origination outside the UK to broaden our product range, while maintaining a strong focus on sustainability.
- We will enrich our differentiation in multi-assets and equities, by developing our range of thematic and sustainable strategies.
- We are also looking to further deploy the multi-asset allocation approach that powers our PruFund proposition, by expanding the distribution of its sister product, Future+, in selected European markets, and launching new client solutions with a similar risk-managed outcome.

Deploy a full savings and advice offering in the UK

M&G Wealth's end-to-end savings proposition comprises our historical off-platform offering centred on our smoothed PruFund product, a model portfolio solution, a digitally enabled adviser platform, a market-leading hybrid advice capability and an advice business of 500 advisers.

This combination meets the needs of a wide range of financial advisers and clients, which will allow us to increase flows into our platform and savings solutions.

Our growth strategy consists of three complementary plays:

- We will expand our off-platform offering, which has historically focused on pension decumulation, to a broader range of solutions near and at retirement.
- We aim to increase the adoption of our platform among selected advisers by improving their digital experience, while expanding the range of investment solutions we offer, including our PruFund range.
- We aim to grow flows into our M&G advice business, by leveraging digitisation and hybrid advice to streamline the advice process, while offering our Heritage clients a more customised experience as they retire, leading to better outcomes.

Offer innovative solutions to selected defined benefit pension funds

The dramatic change in market conditions that led to the Liability-Driven Investment crisis in 2022 is causing UK pension schemes across the market to fundamentally reassess their strategies.

Our investment expertise, our financial strength, the scale of the With-Profits Fund and our experience in annuities position us well to support defined benefit pension funds as their needs evolve.

We are exploring ways in which we can help selected funds at different levels of their funding maturity, or where they face specific challenges in de-risking their assets. We are looking to develop traditional and capital-light solutions, including those that could leverage the strength and unique features of the With-Profits Fund.

Financial highlights

These key performance measures are used to monitor and assess our progress against our strategy

Adjusted operating profit before tax

KPM APM REM

£529m

(2021: £721m)

Adjusted operating profit before tax 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 2022
Our adjusted operating profit before tax of £529 million (2021: £721 million) decreased by 27%, driven mainly by a fall in the annuity margin due to the impact from rising yields; an increase in expenses in the Asset Management business; and negative foreign exchange movements on the USD subordinated debt within our Corporate Centre. These have been partly offset by an increase in the with-profits shareholder transfer.

Find out more on page 21.

Total capital generation

KPM APM REM

£(397)m

(2021: £1,822m)

The level of surplus capital is an important financial consideration. Capital generation measures the change in surplus capital during the period, before dividends and capital movements. It is integral to running and monitoring our business, our decisions on capital allocation and investment, and our dividend policy.

Performance in 2022
Total capital generation was negative £397 million (2021: positive £1,882 million), reflecting the significant swing in market movements compared with overall positive market movements over 2021.

Find out more on page 23.

IFRS result after tax

KPM

£(1,619)m

(2021: £92m)

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

Performance in 2022
IFRS result after tax attributable to equity holders decreased to £1,619 million loss (2021: £92 million profit), as market conditions have led to unrealised losses on surplus assets in the annuity portfolio, and derivative contracts held to protect the Solvency II balance sheet.

Find out more on page 22.

Operating capital generation

KPM APM REM

£821m

(2021: £1,117m)

Operating capital generation demonstrates the longer-term view of the movements in our surplus capital, as it is less affected by short-term market volatility and non-recurring items than total capital generation.

Performance in 2022
Underlying capital generation increased 27% to £615 million, primarily driven by higher expected returns on surplus assets in the annuity portfolio. Operating capital generation fell during 2022 by 26%, driven mainly by a number of management actions in 2021 that were not repeated in 2022.

Find out more on page 23.

Net client flows (excluding Heritage)

KPM APM

£0.3bn inflow

(2021: £0.6bn inflow)

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

Performance in 2022
Net client flows saw the Wholesale Asset Management and Wealth business return to a net client inflow position in 2022. Institutional Asset Management had net client outflows, driven by the market volatility.

Find out more on page 322.

Shareholder Solvency II coverage ratio

KPM APM

199%

(2021: 218%)

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 2022
Our shareholder Solvency II coverage ratio remains strong but reduced from 218% to 199% at 31 December 2022, after paying dividends of £465 million, the £503 million cost of the buy-back programme and other capital movements such as acquisitions in the year.

Find out more on page 24.

Assets under management and administration (AUMA)

KPM APM

£342.0bn

(2021: £370.0bn)

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

Performance in 2022
AUMA decreased by £28 billion compared to 2021, predominantly driven by adverse market movements, partly offset by the inclusion of AUMA from our acquisitions in the year.

Find out more on page 322.

Dividend per share (ordinary)

KPM

19.6p

(2021: 18.3p)

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

Performance in 2022
Having paid an interim dividend in September 2022 of 6.2 pence per share, the Board has agreed to pay a second interim dividend of 13.4 pence per share on 27 April 2023.

Find out more on page 16.

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 **10 point sustainability plan:**

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%

(2021: 35%)

Female representation within the Executive Committee and their direct reports as at 31 December 2022.

Performance in 2022
We continue to make progress towards our target of 40% female representation in senior leadership by 2025. Initiatives to support our target include partnerships with Everywoman, Women in Data, City Hive and 100 Women in Finance to provide networking, mentoring and career development opportunities.

Find out more on page 50.

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

REM

12%

(2021: 13%)

Black, Asian or minority ethnic representation within the Executive Committee and their direct reports as at 31 December 2022.

Performance in 2022
Work is ongoing to achieve our target of 20% ethnic minority diversity within senior leadership by 2025. There are a number of initiatives underway, including expanded use of job boards targeting diverse candidates; for example, posting investment and asset management roles on the Black Women in Asset Management job board.

Find out more on page 51.

Net Promoter Score (Retail and Savings)

REM

+14

(2021 restated: +9[i])

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 2022
In 2022, we focused on simplification, stabilisation and excellent service to make it easier for clients to do business with us. We were therefore pleased to see our net promoter score increase from +9 to +14 by the end of the year.

Find out more on page 46.

Direct carbon emissions: Scope 1 and 2[ii]

REM

1,526tCO_2e

(2021 (restated): 1,887tCO_2e)

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 Greenhouse Gas Protocol Scope 2 Guidance.

Performance in 2022
Scope 1 and 2 emissions have decreased year on year by 19%, from 1,887 tCO_2e in 2021 to 1,526 tCO_2e in 2022. The decrease was primarily driven by a reduction in natural gas emissions linked to the relocation from our legacy Craigforth office to our new more energy efficient site in Kildean, and through reductions in our office footprint as we have adjusted to the needs of the business as we adopt hybrid working practices.

Find out more on page 76.

Employee sustainable engagement score

REM

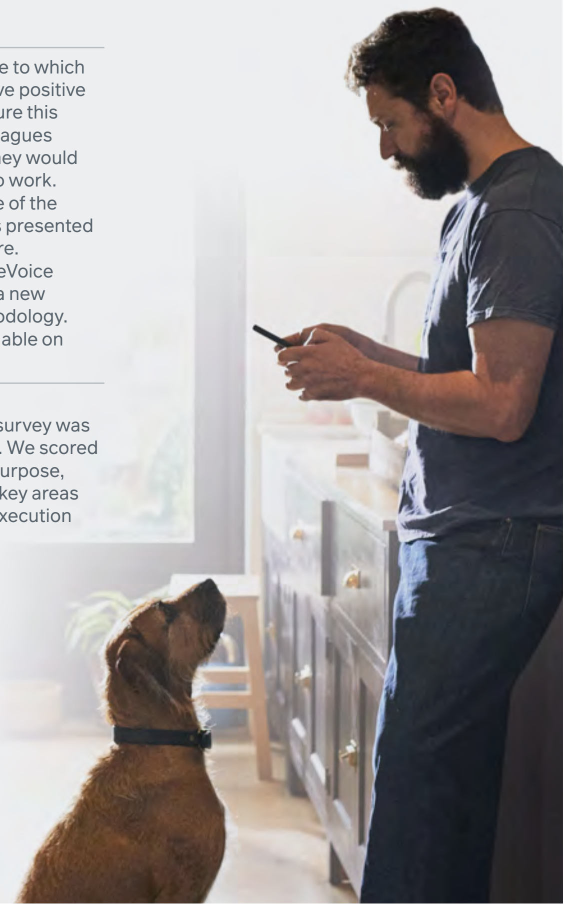
72

(2021: n/a)

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. We moved to a new provider for OneVoice surveys in October 2022, including a new question set and new scoring methodology. The 2021 score is therefore not available on the same basis.

Performance in 2022
Our response rate to the OneVoice survey was 79% by the end of 2022 (2021: 75%). We scored highly in awareness of culture and purpose, while colleague responses showed key areas to prioritise in 2023 are barriers to execution and team collaboration.

Find out more on page 48.



i Basis of calculation changed from three month to six month rolling average.

ii When reporting totals, market-based emissions are used. Note that the 2021 figure has been restated, see page 76 for details.

Positioned to deliver long-term success

Our clear purpose and refreshed leadership team are driving a positive, dynamic business culture

M&G has made good progress over the past year, against the backdrop of a volatile macro environment. I would like to thank all colleagues for welcoming me in March 2022, and for the skill, hard work and commitment they have shown over the last 12 months.

Our client-led offer

We exist to serve our diverse clients: almost five million savers and pensioners, over 800 institutions around the world, and more than 3,500 intermediaries who advise their own clients.

Through our investment expertise, the advice we offer and our risk management capabilities, we help our clients to manage and grow their savings and investments, responsibly.

Acting responsibly

We have a robust governance approach and aim to act responsibly, in all senses of the word. For us, "responsibly" is a benchmark for much more than our approach to sustainability, including robust financial management and mutual respect, which underpins our culture.

Building strong teams

We were delighted to welcome Andrea Rossi as Group Chief Executive Officer in October. Andrea is an inspiring leader, who has deep experience in both global asset management and insurance, a strong track record of delivering profitable growth and outstanding client outcomes.

In May, Kathryn McLeland joined as Chief Financial Officer, bringing fresh energy as well as knowledge and experience from her long career with a leading bank. She is passionate about developing a sustainable approach to doing business, as well as creating sustainable investment solutions.

We also welcomed Dev Sanyal as a Non-Executive Director. He has a profound knowledge of sustainable energy, as well as international finance and fund management experience.

We're committed to making M&G more diverse and inclusive and believe we are on track to meet our 2025 commitments of 40% women and 20% ethnicity in leadership. The benefits of a diverse Board and workforce cannot be underestimated: it attracts a wider pool of talent, helps us to retain good people, improves our working environment and makes for better decision-making.

John Foley's career at M&G and Prudential spanned more than 20 years and included leading M&G through its demerger from Prudential and listing on the London Stock Exchange. On behalf of the Board I thank him for all he has done.

I would also like to thank Fiona Clutterbuck for taking on the role of Interim Chair. She led the Group through a challenging period and we are very grateful for all she achieved.

Dividend and capital return

The Board's policy is to pay stable or increasing dividends over time. In 2022, we announced a share buy-back programme, which was completed in October and returned nearly £500 million to shareholders. Having paid an interim dividend in September 2022 of 6.2 pence per share, the Board proposes a second interim dividend for 2022 of 13.4 pence per share, payable in April 2023. The total dividend of 19.6 pence per share is 7.1% higher year-on-year, reflecting the reduced number of shares in issue after the buy-back, and the Board's decision to maintain the total dividend at last year's level.

Building on our strengths

I am convinced that our differentiated business model, investment expertise and client-led approach, together with scale and long-term investment horizon, provide security to our clients. By building on these strengths, we are well positioned to grow profitably, creating long-term, sustainable value for all our stakeholders.

Edward Braham
Chair

"Powerful, fundamental capabilities lie at the heart of our business."

Edward Braham
Chair

Targeting profitable growth

We are delivering strong operating capital generation, which allows us to invest and focus on profitable growth. But we can only unlock profitability if we simplify our business

Our performance in 2022 has demonstrated the underlying strength and resilience of our differentiated business model in challenging markets. The war in Ukraine and inflationary environment have highlighted global vulnerability to supply shocks and the impact of these on social, economic and political resilience.

In difficult times like these, clients value our expertise and support to navigate financial uncertainty as evidenced by continued positive net client flows (excluding Heritage) of £0.3 billion in 2022, compared to £0.6 billion in 2021. Our adjusted operating profit before tax remained resilient at £529 million (2021: £721 million) and we are on track to achieve our £2.5 billion operating capital generation target. Over the course of the year, we also returned nearly £1 billion to shareholders.

This robust performance is testament to the hard work of our talented and dedicated colleagues, and long-term relationships we have built over time with our clients.

Our structure is our strategic advantage

Our differentiated business model, with three distinct, yet balanced and complementary parts, I believe gives us a strategic advantage and the right foundations to grow profitably and responsibly.

We lead with the Asset Manager at the core of our business, with Heritage and Wealth supporting its growth and enabling it to prosper: together, all thrive.

We have a well-capitalised balance sheet and we have shown we have a resilient earnings profile. We have robust investment capabilities, a broad geographical reach, and strong relationships with a wide range of clients: individuals, financial institutions, wealth managers, financial advisers and other distribution partners.

Excellent investment capabilities

Our Asset Management business now manages more than £300 billion in client assets around the world, including £150 billion for our Retail and Savings clients. Our investment expertise encompasses one of the largest private assets businesses in Europe and a broad public fixed income range, as well as sustainability-driven multi-assets and thematic equities products. We complement our Asset Management offering with PruFund. At over £58 billion in assets, PruFund is one of the largest multi-asset investment propositions in the UK and Europe.

I'd like to highlight the strong performance of Wholesale Asset Management, with net client flows improving by £4.3 billion compared to last year.

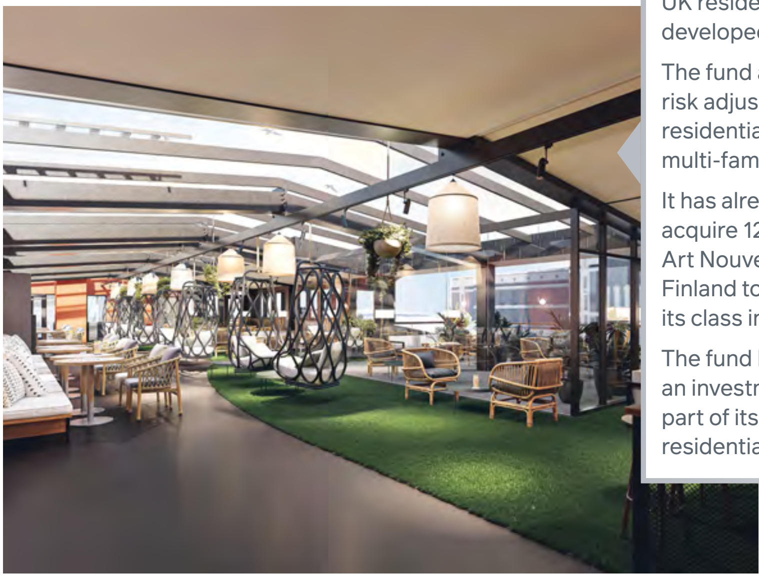
We are delighted with this achievement, which is a result of the tremendous work by our colleagues over several years. The recovery in our UK business was demonstrated by our Wholesale net sales ranking returning to the top 10 in the final quarter of 2022. At the same time, Wealth net client flows increased by £1.6 billion compared to last year, due to improved flows into PruFund.

Over the course of 2022, our Institutional business experienced marginal net client outflows of £0.7 billion (2021: £5.8 billion net client inflows), with redemptions triggered by the mini-budget in the UK in September. The Institutional team delivered significant advised wins in public debt and real estate during the year, and retains a healthy pipeline of opportunities.

Our European franchise performed well, with strong flows in Italy, in part thanks to our Global Listed Infrastructure Fund.

In Asia, we have seen net client inflows from institutional clients in Japan, Hong Kong and Singapore, and wholesale clients in Taiwan across a range of asset classes. We were the third largest asset manager by net sales in the Asian cross-border wholesale market in 2022. We have hired a new Asia fixed income team, establishing a truly international capability in this important asset class.

> "Our business model gives us a strong platform. We will build on it by identifying the right opportunities to unlock value."
>
> **Andrea Rossi**
> Group Chief Executive Officer



Deliver high-value outcomes

Creating solutions that support well-being, sustainability and community across Europe

In early 2023, we launched the M&G European Living Property Fund, building on our market-leading £1.3 billion UK residential property investment strategy, which has developed around 3,500 rental homes to date.

The fund aims to provide institutional investors with attractive risk adjusted returns through investment in Europe's residential sectors, including student housing, single and multi-family housing and retirement living.

It has already made an initial investment of €75 million to acquire 124 recently refurbished apartments in a landmark Art Nouveau building in central Helsinki - the first building in Finland to receive the highest green building certification for its class in Europe for features including reuse of waste heat.

The fund launched with €578 million of capital, including an investment of €178 million by the With-Profits Fund as part of its longer-term strategy to increase exposure to the residential sector in Europe.

Expanding our Retail and Savings products

Our Retail and Savings business is vital to the Group, providing resilient and predictable capital generation throughout the economic cycle. It also allows our investment teams to build new capabilities, which enhance financial returns to our clients, while providing the scale to take our innovative investment products to market.

Our Wealth business enhances our reach through strong brands and intermediary relationships in the UK. With PruFund at its core, it can address the needs of a broad range of individual clients in a large and growing market.

In 2022, we added PruFund Planet to our platform. This is the first time that PruFund has been offered on any investment platform in the UK. We have also made Future+ available to investors in Italy and Ireland. This adds a new growth driver to our international activities.

Future+ is a new family of global multi-asset funds delivering smoothed outcomes, designed to replicate the success of our flagship PruFund range outside the UK.

Meeting rising demand from individual clients

We created M&G Wealth, our integrated wealth management business, to meet rising demand for easily accessible investment advice and wealth solutions. We now offer access to a broad and integrated range of savings and advice solutions for UK clients, through financial advisers, hybrid advice and direct digital channels, such as our new &me investing app.

We are scaling our capabilities through organic growth and acquisitions and aim to complement our existing network of advisers with Continuum (Financial Services), a fast-growing provider of independent financial advice.

We have maintained our focus on improving the quality of client service and outcomes, and I am pleased that our Retail and Savings client Net Promoter Score, covering both Wealth and Heritage clients, has improved to 14 (2021: 9).

We are also exploring ways in which we can support selected defined benefit pension funds as their needs evolve, providing innovative insurance solutions by drawing on our investment expertise, financial scale and annuities experience.

> "Our ambition is to become the go-to asset manager for international investors seeking exposure to European assets."
>
> **Andrea Rossi**
> Group Chief Executive Officer

A long-term, responsible investor

Over recent years we have seen a seismic shift in investing, as institutions and individuals become more sustainability focused. We recognise the scale of change required to transition the global economy to mitigate the effects of climate change, and we believe that we can make a real impact from a societal and economic perspective. This brings both significant responsibility and opportunity to M&G as conviction-led, responsible investors and stewards of the long-term savings of millions of clients.

Although we are still at the start of our journey, we are focused on making progress towards our sustainability commitments on climate and diversity and inclusion. We continue to identify investment opportunities in climate solutions and those that support a just transition. We are embedding our Net Zero Investment Framework across our investment teams, and engaging with the companies in which we invest on their ESG policies including climate change.

We also continue to expand our sustainable investing expertise with the launch of new thematic funds, the acquisition of responsAbility and deploying the £5 billion With-Profits Fund Catalyst mandate to invest in innovative businesses working to create a more sustainable world.

Simplification and profitable growth

Our financial strength underpins attractive and dependable returns to shareholders, as does our rigorous approach to capital management. Now we need to build on these strengths, and ensure our strategy continues to anticipate and meet the needs of our clients. We are narrowing our focus to three priorities: maintaining financial strength, simplifying our business, and targeting profitable growth. We are investing in our digital capabilities to ensure we make financial advice more accessible in the UK market, and to deliver strong service to support all of our clients.

The simpler an organisation is, the closer it is to its clients, the better experience and service they will receive. This is a core part of our strategy to unlock growth and increase revenue, but we have to be equally focused on costs and simplify the way we work. I want us to act faster and more efficiently.

To enable this, we have launched a transformation programme targeting £200 million of cost savings gross of inflation by the end of 2025.

By 2025, we also aim to reduce our Asset Manager cost/income ratio to below 70%, but this is not the destination: our longer term ambition is a cost/income ratio in the range of 66% to 68%.

In continuing to transform our business, we will empower colleagues and improve accountability, pushing operational accountability into the business areas that are close to our clients. This will make M&G a better place to work and we will also become easier to do business with, deliver better client outcomes and drive growth.

To meet our £200 million cost savings target we will improve client journeys through digitalisation; remove management layers and streamline governance, enhancing our approach to shared services and outsourcing; and optimise our operating model.

We will focus the business on targeted opportunities where we believe our differentiated propositions and services give us a good starting point. By having this focus we expect to deliver increased adjusted operating profit from Asset Management and Wealth to more than 50% of the Group total by the end of 2025. Our targets are ambitious but achievable.

Empowering our teams

We want to create an exceptional place to work - a positive environment where colleagues can bring their true selves to work and are inspired to do their best for our clients. I'm committed to ensuring our colleagues continue to have the right support, advice and resources so they can continue to grow.

In 2022, we continued to evolve our well-being support, extending our families policy to include neonatal support. We also provided a one-off, non-pensionable payment to colleagues earning less than £50,000 to help alleviate the impact of the cost-of-living crisis.

We are committed to creating both a diverse and inclusive workforce, and playing our part across the wider financial services industry.

We support industry-wide initiatives to develop diversity, and were one of the first companies in our sector to publish an ethnicity target in leadership and to voluntarily publish ethnicity pay gap data. Our mean gender pay gap for 2022 is stable at 29.2% (2021: 29.3%) and the mean ethnicity pay gap was 5.5% (2021: 5.7%). We are committed to having 40% women and 20% ethnic diversity in our senior leadership by 2025. At the end of 2022, we had made progress towards these commitments but there are still further improvements required, with 37% women and 12% ethnic diversity in our senior leadership.

Executive and leadership changes

We welcomed Kathryn McLeland as Chief Financial Officer in May. We have also added to our Executive team during the year, with Benoît Macé as Chief Strategy and Transformation Officer and Louise Shield as Corporate Affairs Director.

Jack Daniels, Chief Investment Officer and Managing Director of M&G Asset Management will retire later in the year, after more than 20 years with M&G. I would like to thank him for his contribution to the business and in particular the significant impact he made as Managing Director. Jack is being replaced by Joseph Pinto, who will join us later this month.

Priorities for 2023

Our operational environment remains challenging, but as we look to the next 12 months we are confident that we have the right strategy in place and that we are taking the right management actions to ensure our business continues to perform well, delivering superior returns through attractive dividends and earnings growth.

We are aiming to create a leading international savings and investment business, leveraging our strengths to best address our clients' needs and delivering sustainable growth in markets with recurring, fee-based revenues: leading with the Asset manager, leveraging the Heritage balance sheet and Wealth distribution.

This isn't about being the biggest, it's about driving a step change in profitability.

Andrea Rossi
Group Chief Executive Officer

A message from our Chief Financial Officer

In 2022, a year of significant macroeconomic uncertainty, our financial performance has demonstrated the resilience of our business

I'm pleased to present my first set of annual results as Chief Financial Officer of M&G. These results demonstrate our strengths and the resilience of our business in what has been a challenging macroeconomic environment.

Wholesale Asset Management returned to net client inflows for the first time since 2018 of £0.5 billion (2021: £3.8 billion net client outflows), demonstrating the ongoing turnaround of the business.

Our Institutional business saw net client outflows of £0.7 billion (2021: £5.8 billion net client inflows) with the domestic Institutional business impacted by the UK mini-budget crisis in the second half of the year.

We have returned to net client inflows in our Wealth business with a total of £0.2 billion, which compares to net client outflows of £1.4 billion in 2021. This turnaround in net client flows was driven mainly by strong performance in our PruFund offerings.

Total AUMA decreased to £342.0 billion (2021: £370.0 billion), predominantly driven by negative market movements from the volatility experienced in markets throughout a challenging year, partly offset by the inclusion of AUMA from the acquisitions made in the year.

Our IFRS result has been significantly impacted by the meaningful increase in yields over the year, with the unrealised fair value losses on the surplus assets in the annuity portfolio and the fair value losses on the interest rate hedging we have in place to protect our Solvency II capital position leading to a significant loss after tax attributable to equity holders for the year of £1,619 million (2021: £92 million profit). Importantly, our dividend payment capacity is linked to the value of available capital in our subsidiaries which is strong.

Adjusted operating profit before tax of £529 million (2021: £721 million) has been affected by the impact of rising yields on the annuity margin and a foreign exchange loss on our USD denominated subordinated debt. In M&G Wealth, adjusted operating profit more than doubled to £96 million, due to an increase in shareholder transfers from PruFund driven by strong investment returns for our clients.

Despite a reduction in total capital generation, which has fallen to £(397) million compared with £1,822 million at 31 December 2021 as a result of adverse market movements, our shareholder Solvency II coverage ratio remains strong at 199% (2021: 218%). The coverage ratio is calculated after dividends, the cost of the share buy-back and the dilutive impact from the recognition of deferred tax assets due to the mark to market losses on our assets.

We are on track to deliver our target of £2.5 billion of cumulative operating capital generation by 2024 with operating capital generation of £821 million in the year. We are also targeting £200 million of cost savings across the Group, and a reduction in the core asset management cost/income ratio to below 70% by 2025. We also plan to take action to reduce our leverage ratio to below 30% by 2025.

As we focus the business on our strengths we are targeting adjusted operating profit from Asset Management and Wealth to be over 50% of the Group total by the end of 2025.

We paid an interim ordinary dividend of £154 million equal to 6.2 pence per share, in line with our policy of paying one-third of the previous year total dividend, on 29 September 2022. A second interim dividend of £310 million equal to 13.4 pence per share will be paid on 27 April 2023, which means 19.6 pence per share of total dividends were paid to shareholders in 2022, alongside the share buy-back.

On a personal note, I am delighted with the progress we have made this year despite the challenges posed by the continued economic and geopolitical uncertainty. In 2023 we will be publishing our IFRS 17 compliant results for the first time, marking the end of what has been a significant implementation programme for our business and the insurance industry as a whole.

Kathryn McLeland
Chief Financial Officer

> "We have delivered another resilient performance, which is a testament to the diversification of our business model and the determination of our people."

Kathryn McLeland
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 2022	2021
Core Asset Management	**213**	277
Performance fees (including carried interest) and investment return	**51**	38
Asset Management	**264**	315
Wealth	**96**	41
Heritage	**466**	620
Other	**10**	(1)
Retail and Savings	**572**	660
Corporate Centre	**(307)**	(254)
Adjusted operating profit before tax	**529**	721

Adjusted operating profit before tax was £529 million for the year ended 31 December 2022 (2021: £721 million).

In Asset Management, the reduction in adjusted operating profit to £264 million (2021: £315 million) is mainly driven by an increase in expenses as we continue building out the capability and operations of our international investment function. In addition, there has been an increase in the operational cost base linked to inflation.

Despite the challenging markets, which resulted in a decrease in investment return from £17 million to £(5) million, the income earned from performance fees and carried interest in the period has increased by £35 million to £56 million.

In Retail and Savings, the total with-profits shareholder transfer net of hedging and other gains/losses has increased by £86 million to £354 million, benefitting from the strong investment performance. However, this has been offset by a £142 million fall in the annuity margin driven by the upwards movement in yields and other one-off benefits from 2021 that did not repeat in 2022, including a prior year release of the annuity sales practices review provision of £31 million in 2021.

This has led to a reduction in Retail and Savings adjusted operating profit to £572 million (2021: £660 million).

Corporate Centre costs have increased which is largely driven by adverse foreign exchange movements of £50 million (2021: £4 million) on the USD subordinated debt. Changes in executive leadership have resulted in additional remuneration and recruitment costs.

Adjusted operating profit before tax to IFRS (loss)/profit after tax

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

£m	For the year ended 31 December 2022	2021
Fee-based revenues	**1,346**	1,254
Annuity margin	**227**	369
With-profit shareholder transfer net of hedging gains/losses	**354**	268
Adjusted operating income	**1,927**	1,891
Adjusted operating expenses	**(1,165)**	(1,063)
Other shareholder losses	**(214)**	(101)
Share of profit from joint ventures and associates	**–**	6
Adjusted operating profit attributable to non-controlling interests	**(19)**	(12)
Adjusted operating profit before tax	**529**	721
Short-term fluctuations in investment returns	**(2,484)**	(537)
Profit on disposal of business and corporate transactions	**–**	35
Amortisation and impairment of intangible assets acquired in business combinations	**(35)**	(4)
Restructuring and other costs	**(147)**	(146)
IFRS profit attributable to non-controlling interests	**19**	12
IFRS (loss)/profit before tax attributable to equity holders	**(2,118)**	81
Tax credit attributable to equity holders	**499**	11
IFRS (loss)/profit after tax attributable to equity holders	**(1,619)**	92

IFRS (loss)/profit after tax

IFRS result after tax attributable to equity holders is a £1,619 million loss compared with a £92 million profit in 2021. The loss is primarily reflective of a £2,484 million loss in the year (2021: £537 million loss) from short-term fluctuations in investment returns, offset in part by a tax credit of £499 million.

In Retail and Savings, market conditions have led to significant losses from short-term fluctuations in investment returns in 2022. These losses primarily comprise a £1,301 million loss (2021: £99 million loss) from fair value movements on the surplus assets in the annuity portfolio and a £989 million loss (2021: £103 million loss) on interest rate swaps purchased to protect PAC's Solvency II capital position against falls in interest rates, both due to significant rising yields in the year. These are particularly impacted by longer-term yields which have increased by over 270 basis points, in some instances, over the course of the year.

These losses were partly offset by a positive movement on the hedging instruments held to protect the future shareholder transfers from falling equity markets which moved to a gain of £104 million (2021: £248 million loss) as a result of falls in the US and European equity stock markets.

The interest rate swaps and the equity hedges provide some protection to the Solvency II balance sheet but there is no corresponding item to protect on the IFRS balance sheet, and therefore when the fair value of the derivatives change as interest rates and equity markets move, there are no offsetting fair value movements on an IFRS basis leading to an overall loss in the current year.

Amortisation and impairment of intangible assets includes a £25 million (2021: £nil) impairment of goodwill in relation to the M&G Wealth Platform business related to the uncertainty around long-term market growth in the current macroeconomic environment.

Restructuring and other costs of £147 million (2021: £146 million) relate to £56 million (2021: £35 million) in relation to the transformation of the business, £17 million (2021: £48 million) in respect of our future ways of working and associated changes to our office spaces and £32 million (2021: £45 million) in relation to the development of the M&G Wealth platform business. A significant part of our transformation programme is the on-going project to migrate our multiple policy administrative systems to one single system.

We have incurred costs of £11 million (2021: £6 million) in relation to this programme in 2022 and expect to complete this programme over the next two to three years.

The equity holders' effective tax rate for the year ended 31 December 2022 was 23.6% (2021: (13.6%)). Excluding non-recurring items, the equity holders' effective tax rate was 18.1% (2021: 9.9%). The equity holders' effective tax rate of 23.6% was higher than the UK statutory rate of 19% (2021: 19%). This reflects a favourable position (higher tax benefit on the pre-tax loss position) and is primarily due to the beneficial impact of recognising deferred tax assets on current period tax losses, for which the majority have been measured at the new UK corporation tax rate of 25% that is effective from 1 April 2023. This benefit was partially offset by the adverse impact of deductions not allowable for tax purposes.

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 2022	2021
Asset Management underlying capital generation	**246**	313
Retail and Savings underlying capital generation	**641**	459
Corporate Centre underlying capital generation	**(259)**	(288)
Underlying capital generation	**628**	484
Other operating capital generation	**193**	633
Operating capital generation	**821**	1,117
Market movements	**(1,225)**	917
Restructuring and other	**(166)**	(181)
Tax	**173**	(31)
Total capital generation	**(397)**	1,822

Total capital generation for 2022 is negative £397 million, compared to positive £1,822 million in 2021. Capital generation has been adversely affected by significant market volatility and a lower benefit from management actions. However, underlying capital generation, which represents the capital generated by the performance of the business, has increased to £628 million from £484 million.

Asset management underlying capital generation has fallen to £246 million (2021: £313 million) driven by the fall in adjusted operating profit and an increase in risk capital held in respect of credit and market risk, due to increased foreign exchange stresses and seeding activities.

Corporate Centre underlying capital generation has improved by £29 million to negative £259 million due to a fall in capital requirements of £8 million (2021: £8 million increase) and higher investment income received on assets held, which more than offset an increase in head office costs.

Other operating capital generation has fallen by £440 million to £193 million largely as a result of one-off benefits in 2021 not being repeated in 2022. These include the benefit from the Major Model Change, the release of £150 million of counterparty risk capital in respect of the transfer of annuity business to Rothesay Life plc and a larger benefit compared to 2022 in respect of asset trading in the annuity portfolio, particularly in relation to property sales.

Market movements over 2022 have resulted in a negative impact of £1,225 million (31 December 2021: £917 million positive impact) following a fall in US and Asian equity markets, the widening of credit spreads, and a substantial increase in interest rates. The main impact is as a result of losses on the value of surplus annuity assets of £1,602 million (31 December 2022: £64 million loss). On a Solvency II basis there are more surplus assets in the annuity book than on an IFRS basis, as the measurement basis for Solvency II liabilities does not include an allowance for prudence and therefore the total fair value of the assets used to back them is lower than on an IFRS basis.

Other impacts include losses on interest rate swaps of £989 million (31 December 2021: £103 million), as the swaps are designed to protect the fund in a falling interest rate environment, a reduction in the benefit from the present value of shareholder transfers less equity hedges to £454 million (31 December 2021: £653 million), and a reduction in capital requirements of £1,034 million.

Restructuring and other costs of £166 million reflects the impact on the capital position of transformation costs outlined in the discussion on IFRS results, and additionally includes the impact of moving to the Investment Firms Prudential Regime, the new regulatory regime for investment firms.

Capital position

The shareholder Solvency II ratio remains strong at 199% (2021: 218%). However, M&G plc's Solvency II surplus fell to £4.6 billion as at 31 December 2022 (2021: £6.2 billion), predominately impacted by lower own funds but market movements have also reduced the solvency capital requirement. Own Funds has reduced by £2.1 billion, driven by negative total capital generation of £397 million (2021: positive £1,822 million) combined with a deduction of £465 million (2021: £466 million) from dividends paid to shareholders in the year, a reduction of £503 million as a result of the share buy-back, and a reduction of c.£200 million (2021: £32 million) from other capital movements, (primarily the acquisitions of Sandringham, TCF and responsAbility).

Our With-Profits Fund continues to have a strong Solvency II coverage ratio of 362%. This is higher than the 302% reported at 31 December 2021; the distribution of excess surplus to policyholders of £1.5 billion, coupled with market movements contributed to a reduction in surplus over the period however, both of these items also reduced the solvency capital requirements.

In particular, the sharp increase in yields and fall in equity assets reduced exposure to market risks - and thus reduced the amount of capital that needs to be held against these risks - resulting in an overall increase in the with-profits solvency ratio despite the fall in surplus as a result of market movements. The run-off of capital requirements also contributed to the increase in this ratio.

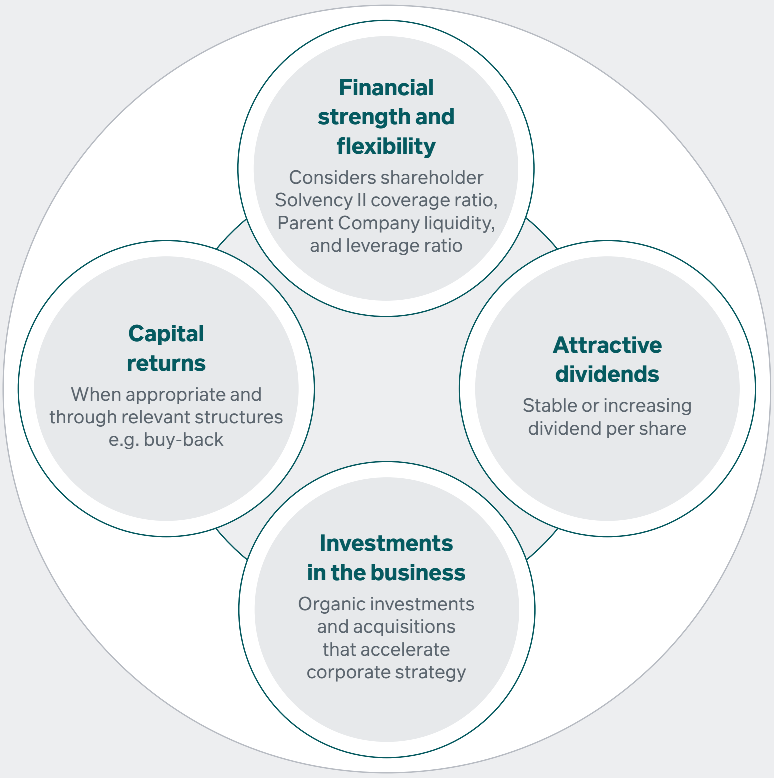
The regulatory Solvency II coverage ratio of M&G plc as at 31 December 2022 was 164% (2021: 168%). This view of solvency combines the shareholder position and the With-Profits Fund but excludes all surplus within the With-Profits Fund.

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

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 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.



Financing and liquidity

The following table shows key financing and liquidity information:

£m	As at 31 December 2022	2021
Nominal value of subordinated debt	**3,264**	3,216
Shareholder Solvency II own funds	**9,268**	11,409
Leverage ratio	**35%**	28%

The main 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. Our leverage ratio of 35% at 31 December 2022 has increased from 28% at 31 December 2021, as a result of the fall in Solvency II Own Funds in the year due to the impact of market movements as set out earlier under Capital position. For further detail on shareholder Solvency II own funds, see Note 37.2.2.

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

£m	For the year ended 31 December 2022	2021
Opening cash and liquid assets at 1 January	**1,709**	1,040
Cash dividends from subsidiaries	**391**	1,458
Corporate costs	**(140)**	(112)
Interest paid on core structural borrowings	**(190)**	(186)
Cash dividends paid to equity holders	**(465)**	(466)
Share buy-back	**(503)**	–
Capital injection to subsidiaries	**(11)**	(25)
Other	**26**	–
Closing cash and liquid assets at 31 December[i]	**817**	1,709

i Closing cash and liquid assets at 31 December 2022 included a £793 million (2021; £1,651 million) inter-company loan asset with Prudential Capital plc, which acts as the Group's treasury function.

Movements in cash and liquid assets held by the Parent Company for the year ended 31 December 2022 represent the dividends and payments that arise in the normal course of business. Total cash and liquid assets have decreased with dividend payments to equity holders of £465 million (2021: £466 million), interest paid on structural borrowings of £190 million (2021: £186 million) and £503 million in respect of the share buy-back scheme completed in the year.

This has been partly offset by cash dividends of £391 million (2021: £1,458 million) received from our subsidiaries. As part of our cash management processes, £185 million of dividends from PAC and M&G Group Limited in the year have been retained in lower level holding companies to fund the acquisitions of Sandringham and TCF, and our partnership with Moneyfarm and therefore cash dividends from subsidiaries are not comparable year on year. Also, a large dividend was received from PAC via the intermediate holding company in 2021, in line with our capital management framework.

Dividends

We paid a dividend of 12.2 pence per share, equal to £311 million, on 28 April 2022. In addition, we paid an interim ordinary dividend of 6.2 pence per share, equal to £154 million, in line with our policy of paying one-third of the previous year total dividend, on 29 September 2022. A second interim dividend of 13.4 pence per share, equal to roughly £310 million, will be paid on 27 April 2023.

Asset Management

The ongoing turnaround in our Wholesale Asset Management business is demonstrated by net client inflows in the year. However, the challenging market conditions in the UK led to net client outflows in Institutional Asset Management

Assets under management and administration and net client flows

	Net client flows For the year ended 31 December		AUMA[i] As at 31 December	
£bn	**2022**	2021	**2022**	2021
Institutional Asset Management	**(0.7)**	5.8	**99.2**	103.1
Wholesale Asset Management	**0.5**	(3.8)	**53.9**	52.7
Other	**–**	–	**1.1**	0.9
Total Asset Management	**(0.2)**	2.0	**154.2**	156.7

i £12.7 billion of total asset management AUMA relates to assets under advice (2021: £7.9 billion).

Our Asset Management business saw net client outflows of £0.2 billion, against the backdrop of extremely volatile markets, compared with net client inflows of £2.0 billion in 2021.

Following the change in operating segmentation of our business in 2021, we have renamed Retail Asset Management to Wholesale Asset Management to better reflect the nature of the business. Wholesale Asset Management returned to a net client inflow position of £0.5 billion (2021: £3.8 billion net client outflow) for the first time since 2018 following actions taken to improve investment performance and reposition the business. Although a reduction on the £0.8 billion net client inflows reported at 30 June 2022, this reflects the elevated economic volatility experienced in the second half of the year.

Performance has improved markedly with 68%[ii] of Wholesale funds now in the upper two performance quartiles over one year (31 December 2021: 45%).

Our partnerships with European distributors have enabled us to deliver strong inflows into our investment solutions channel, which accounted for £1.9 billion of net client inflows in the year.

This was partly offset by net client outflows experienced in the other parts of our wholesale business of £1.4 billion, driven by economic uncertainty and heightened market volatility. Despite this £1.4 billion net client outflow, we have seen the success of our newer propositions in the year such as the Global Listed Infrastructure Fund, investing in sustainable infrastructure companies and investment trusts. This fund delivered £1.5 billion of net client inflows predominantly into our International Wholesale business in the year.

Wholesale Asset Management AUMA increased £1.2 billion to £53.9 billion with negative market movements of £1.5 billion in the year, more than offset by positive other movements of £2.2 billion.

Net client outflows of £0.7 billion (2021: £5.8 billion net client inflows) in our Institutional Asset Management business reflect the significant market volatility experienced in the year. This was particularly evident in our UK Institutional business with net client outflows of £2.3 billion, with a notable spike in outflows following September's mini-budget. In contrast, our International Institutional business continued to deliver strong net client inflows of £1.6 billion.

The net outflows are a combination of the gross outflows, particularly in the second half of the year of £8.9 billion (H2 2021: £5.3 billion) driven by the mini-budget, and the reduced gross inflows of £3.1 billion to £13.1 billion (2021: £16.2 billion) reflecting changing client behaviour when markets are volatile.

Institutional Asset Management AUMA decreased by £3.9 billion to £99.2 billion mainly driven by negative market movements from the public debt channel, partly offset by £2.9 billion additional AUMA from the acquisition of responsAbility.

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 6% to £76.6 billion of AUMA as at 31 December 2022 (2021: £72.6 billion).

ii Source: M&G plc and Morningstar Inc.

Adjusted operating profit before tax

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

£m	For the year ended 31 December 2022	2021
Fee-based revenues[i]	**1,051**	976
Adjusted operating income	**1,051**	976
Adjusted operating expenses	**(763)**	(672)
Other shareholder (loss)/profit	**(5)**	17
Share of profit from joint ventures and associates	**–**	6
Adjusted operating profit attributable to non-controlling interests	**(19)**	(12)
Adjusted operating profit before tax	**264**	315

i £306 million of the fee-based revenue is in respect of assets managed on behalf of Retail and Savings (2021: £303 million).

Adjusted operating profit before tax from our Asset Management business has decreased 16% to £264 million in the year ended 31 December 2022 (2021: £315 million) primarily driven by increased expenses.

Following the acquisition of a controlling interest in MandG Investments Southern Africa Pty (Limited) (MGSA) (formerly PPMSA) in July 2021, the presentation of revenues and costs in relation to MGSA are now fully represented within fee-based revenues and operating expenses respectively. Pre-acquisition the profit on MGSA was represented by the share of profit on joint ventures and associates, therefore the impact on the revenue and expenses is not directly comparable year-on-year.

Revenue earned by Institutional Asset Management has increased to £598 million (2021: £539 million) which includes an additional £17 million of revenue recognised from MGSA, and £23 million of revenue from responsAbility, which was acquired in May 2022. This was marginally offset by lower Wholesale Asset Management fee-based revenues of £397 million (2021: £414 million) as we continue to experience the remaining impact from the lower pricing structure applied to our UK OEICs in February 2021 and the impact of market volatility in the year. In addition, income earned from performance fees and carried interest in the year has increased by £33 million to £56 million.

The Asset Management average fee margin of 32bps was in line with 31 December 2021. Average fee margins in the Institutional Asset Management business increased to 29bps (2021: 27bps) driven by the inclusion of responsAbility while the Wholesale Asset Management fee margins decreased to 38bps (2021: 39bps).

Adjusted operating expenses have increased by £91 million to £763 million (2021: £672 million) with an additional £20 million of costs recognised relating to MGSA and £22 million in relation to responsAbility. In addition, we have incurred increased costs relating to the further development of our capabilities and operations across our international investment function of £20 million and a further £21 million increase as a result of the impact of inflation on our cost base.

The cost/income ratio for the Asset Management business increased to 77% (31 December 2021: 70%) reflective of the rising operating expenses of the business and the impact of inflation in the year.

Other shareholder (loss)/profit primarily relates to investment return on seed investments and units held to hedge management incentive schemes which has fallen by £22 million compared with the prior year reflecting the falls in equity markets in the year.

Capital generation

The following table shows an analysis of operating capital generation:

£m	For the year ended 31 December 2022	2021
Underlying capital generation	**246**	313
Other operating capital generation	**(33)**	15
Operating capital generation	**213**	328

Operating capital generated by Asset Management decreased to £213 million (2021: £328 million), driven by a decrease in underlying capital generation due to the fall in adjusted operating profit, and an increase in risk capital held in respect of credit and market risk.

The fall in other operating capital generation is attributable to an increased allocation of operational risk capital (offset elsewhere in the Group), and lower investment return.

On 1 January 2022, M&G Investments adopted the new Investment Firms Prudential Regime (IFPR).

The impact of the change in capital regime was a decrease in capital of £35 million primarily in relation to deferred tax assets that could no longer be recognised. This one-off impact is not included in determining operating capital generation but included in total capital generation as restructuring and other.

Retail and Savings

We are seeing continued growth of our Wealth business and a strong performance from our with-profits business. However, the current economic conditions have resulted in an overall decline in adjusted operating profit and a significant IFRS loss after tax

Assets under management and administration and net client flows

	Net client flows For the year ended 31 December		AUMA[i] As at 31 December	
£bn	**2022**	2021	**2022**	2021
Wealth	**0.2**	(1.4)	**83.4**	84.2
Heritage	**(6.0)**	(6.9)	**94.1**	117.8
Other	**0.3**	–	**8.9**	9.1
Total Retail and Savings	**(5.5)**	(8.3)	**186.4**	211.1

i £149.9 billion of AUMA is managed internally by the Group's Asset Management businesses (2021: £168.6 billion).

Wealth net client inflows increased to £0.2 billion compared with net client outflows of £1.4 billion in 2021. This turnaround in net client flows was driven mainly by inflows into PruFund following strong investment performance and improved service levels. The trends underscore the importance of broadening the proposition offered in our Wealth business.

Retail and Savings AUMA decreased to £186.4 billion driven by a fall in Heritage AUMA due to adverse market movements of £17.7 billion and net client outflows of £6.0 billion (2021: £6.9 billion).

Wealth AUMA decreased to £83.4 billion primarily due to adverse market movements of £3.4 million, partly offset by a £2.4 billion increase in AUMA from the completion of the Sandringham acquisition.

The acquisition of Sandringham has provided our clients with access to whole of market advice, and our partnership with Moneyfarm has provided direct investment services to our UK clients. To complete our offering, we have also acquired TCF Fund Managers LLP, a provider of model portfolio services. TCF has since been renamed M&G Wealth Investments.

Other Retail and Savings AUMA decreased to £8.9 billion as a result of market movements despite positive net client inflows of £0.3 billion.

Overall Retail and Savings (excluding Heritage) experienced net client inflows of £0.5 billion. PruFund is an investment solution offered to customers of both Wealth and Other Retail and Savings. PruFund experienced net client inflows of £0.8 billion in 2022 (2021: £1.4 billion net outflows) across both business lines. This was partly offset by outflows of £0.3 billion from other Retail and Savings business in the year.

Adjusted operating profit before tax

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

£m	For the year ended 31 December 2022	2021
Fee-based revenues	**295**	278
Annuity margin	**227**	369
With-profits shareholder transfer net of hedging and other gains/losses	**354**	268
Adjusted operating income	**876**	915
Adjusted operating expenses	**(295)**	(296)
Other shareholder (loss)/profit	**(9)**	41
Adjusted operating profit before tax	**572**	660

Adjusted operating profit before tax from our Retail and Savings business reduced to £572 million (2021: £660 million) primarily driven by a decrease of £142 million in the annuity margin, partly offset by an increase in fee-based revenues of £17 million, and an increase in the result from the with-profits business of £86 million.

Fee-based revenues increased by £17 million to £295 million and includes an additional £27 million due to the recognition of revenue from Sandringham for the first time.

The decrease in annuity margin is primarily driven by rising yields in the period due to differences in the duration of the long-term annuity liabilities and the assets held to back them.

The duration mismatch between these assets and liabilities resulted in a loss of £122 million in the period (2021: £6 million).

The with-profits shareholder transfer net of hedging and other gains/losses increased to £354 million (2021: £268 million). The gross with-profits shareholder transfer increased to £446 million (2021: £366 million) primarily as a result of strong investment performance in 2021 and 2022. The result also benefited from the release of the provision for expense overruns of £15 million which had been established on new business written in the With-Profits Fund due to lower sales volumes in 2021.

This was partly offset by fair value losses of £102 million (2021: £60 million) on the derivative instruments used to mitigate equity risk in respect of shareholder transfers.

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

Other shareholder (loss)/profit is down on 2021 with the recognition of a £35 million insurance reserve in relation to initial expenses on the Future+ business and also includes a number of insurance reserve movements in relation to legacy remediation programmes and other provisions.

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 2022	2021
Wealth	**96**	41
Heritage	**466**	620
– of which Annuities	**227**	369
– of which traditional with-profits	**226**	205
Other Retail and Savings	**10**	(1)
Adjusted operating profit before tax	**572**	660

Adjusted operating profit before tax from our Wealth business increased to £96 million (2021: £41 million) driven by an improvement in the net result from PruFund business to £128 million (2021: £63 million). The gross with-profits shareholder transfer of £146 million (2021: £115 million) and the release of £15 million (2021: £33 million loss) expense overruns previously recognised, as noted above, are partly offset by fair value losses on hedges of £33 million (2021: £19 million).

The loss from Wealth's platform and advice business increased to £24 million (2021: £4 million loss) driven by an increase in expenses as we modernise the business, including the digitalisation of the platform. This is key to our strategy for delivering profitable growth.

Heritage adjusted operating profit decreased 25% to £466 million (2021: £620 million) largely driven by the reduction in the annuity margin, which is analysed further below.

Traditional with-profits business net result increased in the year to £226 million (2021: £205 million) as a result of strong investment performance in 2021 and 2022.

Other Retail and Savings is up £11 million, primarily driven by an increase in profits from the business written in Poland, alongside a benefit from extending the term of the agreement to reimburse the With-Profits Fund for its contribution to the costs for growing the business written in Poland, offset in part by the recognition of an insurance reserve for initial expenses on the Future+ business.

The following table provides further analysis of the annuity margin:

£m	For the year ended 31 December 2022	2021
Return on excess assets and margin release	**163**	172
Asset trading and portfolio management actions	**35**	10
Longevity assumption changes	**193**	125
Other	**(164)**	62
Annuity margin	**227**	369

Recurring sources of earnings from the annuity book are 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. These recurring sources of earnings decreased by 5% to £163 million (2021: £172 million) mainly driven by a lower benefit in the year from the release of credit default allowances.

During 2022, we earned £35 million from asset trading and portfolio management actions, compared with £10 million in 2021 which was impacted by losses on property disposals due to the impact on the valuation of annuity liabilities.

The benefit from longevity assumption changes has increased by £68 million to £193 million mainly due to lower expected future improvements in mortality rates (see Note 26.1.3 for more detail on the Group's longevity assumptions).

The annuity liabilities and the assets that back them are well matched on an IFRS basis but small differences in durations exist. With annuity liabilities' durations being overall shorter than the backing assets, losses occur in a rising rate environment. As a result there was a £116 million increase in duration mismatching losses within Other. Additionally, the Other annuity margin has decreased as a result of one-off benefits from 2021 that did not repeat in 2022 including a £31 million benefit from the release of the Thematic Review of Annuity Sales Practices (TRASP) provision in the year.

Credit quality of fixed income assets in the annuity portfolio remained strong in 2022. 98% (2021: 98%) of the debt securities held by the shareholder annuity portfolio are investment grade and only 20% (2021: 18%) are BBB. Downgrades experienced in the year have been relatively moderate, with less than 5% (2021: 3%) of bonds in the shareholder annuity portfolio subject to a downgrade.

Adjusted operating profit excludes the impact of £2,484 million (2021: £542 million) short-term fluctuations in investment return in the Retail and Savings segment as market conditions have led to unrealised losses on surplus assets in the annuities portfolio and derivative contracts held to protect the Solvency II balance sheet, leading to an overall IFRS loss in the year.

Capital generation

The following table shows an analysis of operating capital generation:

£m	For the year ended 31 December 2022	2021
Wealth	**155**	49
– of which with-profits	**180**	60
– In-force	**216**	112
– New business	**(36)**	(52)
– of which Platform and advice	**(25)**	(11)
Heritage	**503**	378
– of which with-profits	**192**	142
– of which Shareholder annuity and other	**311**	236
Other Retail and Savings	**(17)**	32
Underlying capital generation	**641**	459
Model improvements	**(17)**	116
Assumption changes	**158**	18
Management actions and other (incl. experience variances)	**53**	487
Other operating capital generation	**194**	621
Operating capital generation	**835**	1,080

During the year we have revised our capital generation methodology to reallocate realised gains and losses on hedges to protect future shareholder transfers from falling equity markets, from underlying capital generation to other operating capital generation (management actions and other). We have not restated comparatives. The value of realised losses on the equity hedges was £33 million (31 December 2021: £94 million). There was no impact on overall operating capital generation.

In Wealth, the contribution to underlying capital generation from in-force with-profits business increased to £216 million (2021: £112 million), an increase of £56m after allowing for the methodology change to reallocate £48 million of realised losses on equity hedges for 2021 to other operating capital generation. Underlying capital generation for with-profits business relates to the expected return on the present value of shareholder transfers adjusted for movements in the capital held against these transfers. The increase is primarily as a result of a reduction in the solvency capital requirement.

Despite higher new business sales, new business strain reduced to £36 million (31 December 2021: £52 million) since the higher sales avoided the repeat of the expense overrun we experienced in 2021 and allowed us to release a £15 million provision.

Underlying capital generation across the remainder of Wealth fell marginally over the period reflecting losses in respect of the Platform and Advice business.

Underlying capital generation from Heritage increased £125 million to £503 million. The traditional with-profits business in Heritage generated underlying capital of £192 million during the year to 31 December 2022 (2021: £142 million). This is comparable with the previous year after allowing for the change in methodology to reallocate the equity hedge impact to other operating.

There also continued to be significant underlying capital generation from the shareholder annuity and other business, contributing £311 million (2021: £236 million). The increase in underlying capital generation for the annuity business is driven by an increase in the expected return on surplus assets in the annuity portfolio as a result of substantial rises in yields over 2021.

Underlying capital generation for other Retail and Savings business reduced due to the requirement to hold capital in respect of anticipated new business in 2023 which is linked to our strategic priorities.

Other operating capital generation decreased to £194 million (2021: £621 million), largely as a result of one-off benefits in 2021 that have not been repeated. This includes a decrease in model improvements of £113 million to negative £17 million largely due to the one-off benefit from the major model change in 2021 that updated the modelling methodology for credit assets. The benefit from management actions and other also decreased by £434 million to £53 million with 2021 benefitting by £150 million from the release of counterparty risk in respect of the transfer of annuity business to Rothesay Life plc and higher operating capital generation from asset trading in the annuity portfolio of £140 million, following sizable property sales. These decreases were partially offset by an increase in the benefit from longevity assumption changes.

Sustainability and M&G

We continue to embed our 10-point sustainability plan, focused on climate action and D&I. By strengthening our sustainability governance structure, we aim to accelerate progress against our commitments

The bigger picture

We believe sustainability requires an understanding of the interdependence of people, economy and the environment – stepping back to see the bigger picture. From a business perspective, this means understanding environmental and social impacts, and incorporating these into our processes and decision-making.

Global challenges such as climate change and nature loss require major effort across economies, including from the financial services industry. As a leading savings and investments business, we are focused on the long term, making responsible decisions with the aim of protecting and growing our clients' assets, while considering the interests of all stakeholders.

There is a growing focus on sustainability across the market. This informs our strategy and aligns with our purpose – to help people manage and grow their savings and investments, responsibly.

One of our strategic priorities is to deliver profitable growth by building on our asset management expertise, allowing us to meet increasing demand for sustainability and impact-focused investments.

Executing our strategy requires further investment in capabilities, so we can continue to develop innovative propositions for our clients. Advocacy through stewardship and engaging in public forums is an important element of our approach and this means promoting positive real-world change inside and outside of M&G.

Our sustainability commitments

When setting our sustainability strategy, we decided to prioritise two areas for action: climate change and diversity and inclusion. We hold ourselves accountable with specific commitments in these areas. These are:

Commitments to climate change:

- To achieve a near term carbon emissions reduction of 46% across our operations (Scope 1, 2 and Scope 3 travel) by 2030 at the latest[i]
- To achieve net zero carbon emissions across our investment portfolios by 2050, to align with the Paris Agreement on climate change

Find out more on our progress in our climate-related disclosures on page 74

Commitments to diversity and inclusion:

- To achieve 40% female representation and 20% representation from Black, Asian and minority ethnic backgrounds by 2025
- As an asset owner, to evaluate the diversity policy of investment managers that manage assets on our behalf, and how investment managers challenge investee companies to improve and maintain diversity
- To continue to meet our external benchmarks, including the National Equality Standard and LGBT Great Equality Index

Find out more on our progress in our D&I strategy on page 50

Key themes in 2022

#1: Energy transition

The energy crisis, exacerbated by Russia's war on Ukraine, has intensified action by governments to address the trilemma of energy security, affordability and sustainability. Increasing investment in renewable energy not only helps to mitigate future geopolitical risk and energy price inflation, but also presents opportunity for innovation and new infrastructure, spurring economic development.

Our extensive private assets capability means we are strongly positioned to support the deployment of low-carbon solutions and infrastructure in developed and emerging markets. We are also aligning our public asset portfolios with the energy transition, for example through our thermal coal investment policies.

#2: Nature loss

Nature plays a critical role in the fight against climate change. Effective mitigation and adaptation depends on preserving the capacity of natural systems to sequester carbon and regulate the climate.

In 2022, the UN Biodiversity Conference (COP 15) ended with an agreement to halt and reverse nature loss. Compared with the drivers of climate change, the causes of biodiversity loss are much more location-specific.

M&G participated in a range of nature-focused forums in 2022, including the All-Party Parliamentary Group on Biodiversity, and the Taskforce on Nature-related Financial Disclosures (TNFD). This participation should enable us to embed any new disclosure frameworks effectively in the future.

#3: Just transition

The world's poor are particularly vulnerable to the effects of climate change, yet the least responsible for historical emissions. This injustice was a central theme at the UN climate change (COP 27) negotiations in Sharm El-Sheikh in 2022, and has informed initiatives such as Just Energy Transition Partnerships.

The investment needed to decarbonise the global economy is enormous, bringing major opportunities to transform industries and enable the 'Global South' to develop more sustainably.

i Previously we had described our operational target as 'Net Zero 2030'. While our ambition has not changed, we have updated the articulation of the commitment to be in line with the latest industry guidance.

However, success hinges on the transition protecting the lives and livelihoods of those affected. Fairness must be built into transition decision-making, considering where capital is needed most.

Through our emerging markets impact business, responsAbility, we directly finance sustainable development across developing countries. The just transition is a central component in our position on thermal coal, reflected in different phase-out timelines for the OECD and EU (2030) and developing countries (2040).

#4: Economy-wide change

We collectively consume more resources than the Earth can regenerate, and are likely to face irreversible environmental impacts. Addressing these threats requires major structural economic and behavioural change, clear policy signals, and incentives for climate solutions.

From an investment perspective, we are aware that divestment does not automatically translate into real-world change. Stewardship, advocacy and direct capital deployment are important routes to enabling a sustainable transition. Active engagement and voting is an integral part of our approach and is captured in our ESG investment policies.

#5: Sustainability disclosures

Sustainability disclosure standards continue to advance. The International Sustainability Standards Board (ISSB) has finalised its sustainability and climate reporting standards, following extensive consultations. In the EU, the Corporate Sustainability Reporting Directive (CSRD) was formally adopted by the European Parliament following adoption of the Sustainable Finance Disclosure Regulation (SFDR) in 2021. The proportion of funds in our SICAV fund range compliant with SFDR Articles 8 and 9 has increased to 54% at the end of 2022, up from 30% at the end of 2021.

In the UK, the Financial Conduct Authority (FCA) opened a consultation on a package of measures aimed at tackling greenwashing, in the form of the Sustainable Disclosure Requirements (SDR). The UK Transition Plan Taskforce (TPT) has also launched a consultation on private sector climate transition plans. We support these developments, and are providing feedback on relevant consultations. Increased disclosure will help provide transparency for investors, and increases accountability across the industry.

Our sustainability principles

We consider sustainability and ESG factors when determining our corporate strategy and new business initiatives

We embed sustainability considerations throughout our business

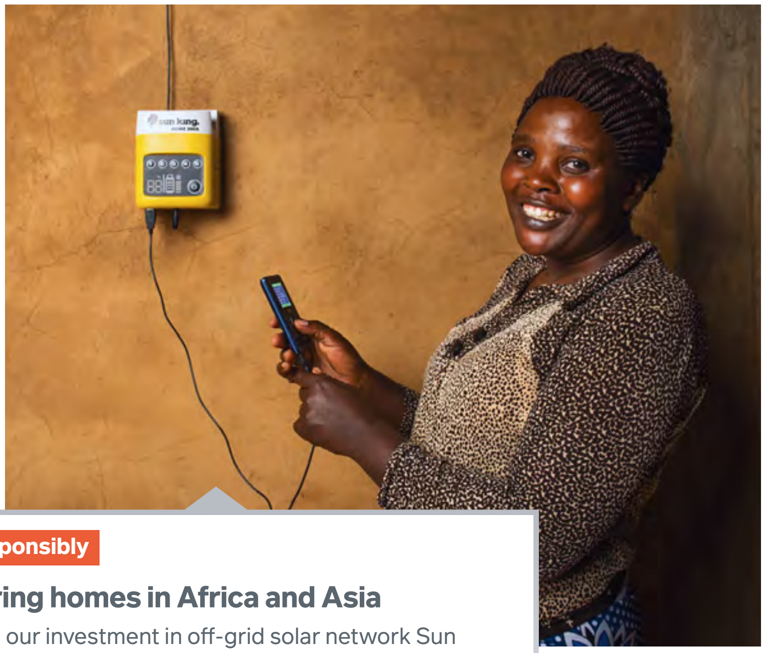
We consider the interests of all our stakeholders and ensure our views on sustainability are consistent with our long-term approach

We manage our businesses – and hold our investee companies – to the principle of 'acting responsibly'

We identify and incorporate ESG risk factors into our general risk management process. Find out more on page 37

We regularly review our sustainability thinking to align with scientific and technological improvements, and changes in the global economy, ethics and consumer preferences. We aspire to be a thought leader, to innovate and to advance understanding of sustainability issues

We use our influence as a global investor and asset owner to drive positive change in sustainability policy and corporate standards. We believe in active asset ownership and management, encouraging companies to transition towards a sustainable future



Act responsibly

Powering homes in Africa and Asia

Through our investment in off-grid solar network Sun King, M&G is helping to transform lives in developing countries. Sun King delivers clean energy to over 82 million people, enabling entrepreneurs to run small businesses and families to light and power their homes safely and affordably, without using dangerous kerosene lanterns. Sun King has so far eliminated 22 million tonnes of carbon emissions and saved consumers $4.4 billion.

This investment, made by Catalyst on behalf of with-profits policyholders, will help Sun King to continue to scale its technology, service and financing capabilities to support millions more energy consumers in Africa and Asia.

Maintaining a holistic view

Our 10-point plan sets out key steps and enablers to drive sustainability and support real-world positive change

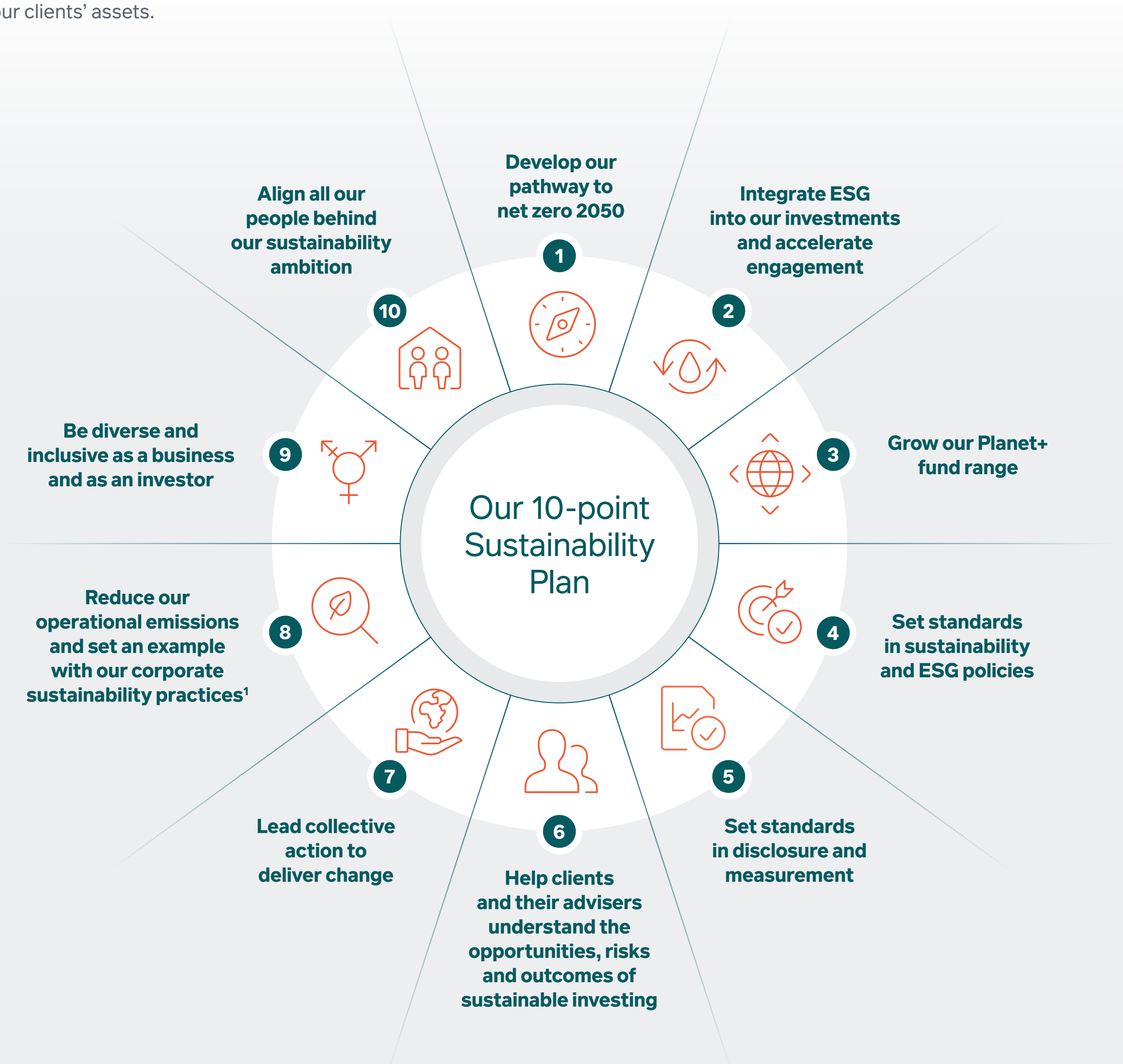
Our 10-point plan, launched in May 2021, contains clear objectives to help us embed sustainability across the business and support real-world positive change. Climate change is a major area of focus, both from an operational and investment perspective, and we are cognisant of related challenges, such as biodiversity loss, that require urgent attention.

We believe the integration of environmental, social and governance (ESG) factors, and active ownership through engagement and voting, is a key element in managing and growing our clients' assets.

Demand for sustainability and impact-focused investment strategies is growing, and our Planet+ range of funds now covers a range of themes to meet the evolving preferences and needs of clients. We have developed a clear set of sustainability-related policies that help us take a structured and joined-up approach, for example when it comes to our position on a just transition.

Measurement is important for understanding our impact, integrating ESG considerations, data and analytics capabilities. We place a major emphasis on collaboration and advocacy, working with industry peers and policymakers to lift ambition.

Delivering on our plan and wider strategy will not be possible without the right culture, and this is why diversity and inclusion, and building company-wide awareness of sustainability, is critical.

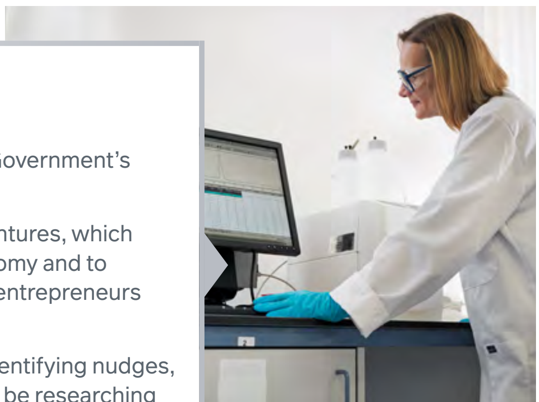


1 Previously we had described our operational target as 'Net Zero 2030'. While our ambition has not changed, we have updated the articulation of the commitment to be in line with industry guidance.

Our sustainability principles and our 10-point plan align with our purpose, which informs our strategy and priorities.

Find out more on our strategy on page 10

10-point plan		Further details	Link to our purpose
1	**Develop our pathway to net zero 2050**	Net zero actions to meet our 2050 target are in 'Investments – implementation strategy' on page 77.	Act responsibly
2	**Integrate ESG into our investments and accelerate engagement**	Information on our ESG integration is in 'Investments – implementation and engagement strategy' on pages 77 to 81.	Act responsibly, Deliver high-value outcomes
3	**Grow our Planet+ fund range**	The many opportunities that sustainability presents, including growth of our Planet+ fund range, are described on pages 72 and 73.	Act responsibly, Deliver high-value outcomes
4	**Set standards in sustainability and ESG policies**	Details of our thermal coal investment policies are included in 'Investments – implementation strategy' on page 77.	Act responsibly, Deliver high-value outcomes
5	**Set standards in disclosure and measurement**	Our 2022 climate-related disclosures on pages 68-89 reflect updated guidelines, and includes improvements in metric coverage. We actively engage on ESG issues (page 81).	Act responsibly, Deliver high-value outcomes
6	**Help clients and their advisers understand the opportunities, risks and outcomes of sustainable investing**	More details on our engagement and activities with clients on sustainability can be found on pages 46-47 and 80-81.	Better understand client needs, Enable our clients
7	**Lead collective action to deliver change**	Read more on our responsible engagement with investees, regulators, industry bodies and focus groups on pages 45 and 81.	Act responsibly, Deliver high-value outcomes
8	**Reduce our operational emissions and set an example with our corporate sustainability practices**	Actions to enable us to meet our 2030 target are detailed in climate change and our operations on pages 74-76.	Act responsibly
9	**Be diverse and inclusive as a business and as an investor**	Our initiatives to improve diversity and inclusion are detailed on pages 49-51. As an investor, we have signed up to the Investing in Women Code.	Deliver high-value outcomes
10	**Align all our people behind our sustainability ambition**	Training on sustainability is available to all colleagues via our internal Sustainability Hub.	Act responsibly



Act responsibly

Becoming more diverse in the way we invest

In December, M&G became the first large UK asset manager to sign the UK Government's Investing in Women Code, on behalf of our Catalyst private assets strategy.

Less than 1% of all venture capital in the UK is invested in female-founded ventures, which represents a huge missed opportunity to create growth and jobs in the economy and to create value for investors. As a signatory of the Code, we aim to help female entrepreneurs access the funding they need to scale their businesses.

Working in partnership with a behavioural science consultancy, Catalyst is identifying nudges, or process design interventions, to deliver better diversity outcomes and will be researching new ways to break down barriers that female and other diverse founders experience in accessing funding.

Sustainability governance

Enhancing our sustainability governance structures and sustainability training this year will bring further clarity to our oversight of sustainability now and in the future

Board oversight

The Board is ultimately responsible for setting M&G's sustainability strategy and ESG values and principles. 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 ESG matters (for compliance with relevant regulations, legislation and standards) is included in the Audit Committee's terms of reference, available on our website.
- Assessment of 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 ESG strategy, is included in the Risk Committee's terms of reference, available on our website.

Responsibility for sustainability at an individual level is assigned to our Chief Financial Officer, who has previous experience in climate stress testing and sustainable impact investing.

The Chief Financial Officer is a member of both the Board and Group Executive Committee, facilitating communication between the Board and management.

In discharging its responsibilities, including setting M&G's sustainability strategy, 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 through their membership of the Audit and Risk Committees.

Regular Risk and Compliance reporting is provided to both the M&G Risk Committee and the M&G Executive Risk Committee through the Chief Risk and Compliance Officer's report – setting out current risk issues, events in the period and as a risk assessment of our key risks against appetite. This includes consideration of sustainability and ESG risks.

During 2022, the Audit Committee discussed and approved our approach to sustainability reporting for 2023.

In 2022, sustainability matters – including a review of commitments and targets – were discussed as required at a number of Board meetings. From 2023, these will be included as part of a regular update presented by the Chief Financial Officer.

Sustainability training and expertise

To enable the Board to perform its role more effectively, members were provided with a number of training sessions on sustainability topics during the year.

These included dedicated training on the link between growth and sustainability, along with wider training on ESG reporting and assurance for the Non-Executive Directors.

In November 2022, a briefing session was provided to the Board, executive management and sustainability leaders by Professor Cameron Hepburn, a Director at the Smith School of Enterprise and the Environment. This session covered a smooth transition to net zero and where potential investment opportunities will arise.

Board oversight

M&G Plc Board

Responsible for setting Group's business strategy, including ESG, purpose, values and culture

Fund Board | **Regulated Entity Board**[i]

Accountability and oversight of ESG for the investments/products within their remit

Audit Committee	Risk Committee	Remuneration Committee	Nomination Committee
Reporting and assurance	Assessment of risk, including ESG risks	Senior management remuneration targets	Board skills and experience

i Includes the With-Profits Committee

Executive oversight

Group Executive Committee

Responsible for implementing the Group's business strategy

Management Disclosure Committee	Executive Investment Committee	Executive Risk Committee	Executive Sustainability Committee
Reporting and disclosure	Climate investment strategy for our asset management business	Assessment of risk, including ESG risks	Group sustainability strategy and commitments

Find out more on Board and Committee attendance on page 100

In addition to the training schedule for the year, in June 2022 the Risk Committee received a presentation on greenwashing risk.

This session covered what risks fall under greenwashing and how these can present, including: policies, risk reporting, funds and products, and external stakeholder perceptions. As a result of this presentation, the Risk Committee approved further action in a number of areas, including updates to staff training, and certain fund-related actions relating to terminology and ratings.

As well as the previous experience of our new Chief Financial Officer, two additional appointments in 2022 have enhanced the Board's knowledge and experience on sustainability:

Dev Sanyal joined the M&G Board as a Non-Executive Director on 16 May 2022. Mr Sanyal brings with him a deep experience in renewable energy, including solar, wind, hydrogen and bioenergy.

Andrea Rossi, our newly appointed Group Chief Executive, has experience as a Non-Executive Director of REsustain, a firm he co-founded in April 2021, which developed a platform that helps reduce the carbon intensity of commercial real estate.

Management's role

Executive management, as members of the Group Executive Committee, report directly into the Group Chief Executive Officer, allowing material climate and other ESG issues and policy decisions to be escalated to the Board. In discharging their responsibilities, management attend various committees, such as the M&G Executive Risk Committee and M&G Executive Investment Committee, to enable information sharing between business units and to monitor climate-related issues. Find out more about the oversight of climate-related issues by these committees on page 69.

At the Group Executive Committee level, responsibility for sustainability strategy, policy, commitments and governance model, including climate, sits with our Chief Financial Officer.

A Central Sustainability Office was created in 2022 to implement a Group-wide sustainability governance operating model, shape the group's sustainability strategy and policy, and oversee delivery of its commitments.

As part of this, an Executive Sustainability Committee was also formed in 2022, and is chaired by our Chief Financial Officer. The Executive Sustainability Committee is responsible for:

- supporting the Board in the successful execution of M&G's sustainability strategy, policy, public sustainability commitments and disclosures;
- promoting and driving a collaborative approach across M&G;
- tracking the progress and delivery of sustainability commitments and targets;
- tracking sustainability spend and forecasts and the sustainability programme costs;
- reviewing sustainability emerging topics and risks, as presented to the committee by risk; and
- reviewing external ESG disclosures.

Sustainability disclosures and reporting that are considered material to the Group are presented to the Management Disclosure Committee (MDC), which has responsibility for external reporting and disclosure, prior to submission to the Audit Committee. The MDC is also chaired by the Chief Financial Officer.

ESG risk management

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

Across M&G and its subsidiaries, we continue to integrate sustainability risk into a range of activities across the three lines of defence (first line, risk and compliance and internal audit).

Sustainability risks are identified, assessed and managed under the M&G ESG Risk Management framework and policy.

Consideration of sustainability and ESG risk is built into our decision-making processes, and is a requirement of key strategic Board risk assessment papers.

Climate change risk is integrated into our scenario analysis process, which explores a number of scenarios, not all climate-based, with both top-down and bottom-up consideration over a range of time horizons.

Risks and opportunities arising from climate change are discussed in more detail within our climate-related disclosures on pages 70-73.

Find out more on Risk Management on page 61

Remuneration

Our Executive Committee's reward structure is linked to the core performance management scorecards, which include sustainability-related metrics.

The executive LTIP arrangements for 2022 included a 7.5% weighting attributed to our organisational emissions reduction, and a 7.5% weighting attributed to our gender diversity targets. For the 2023 LTIP, the Remuneration Committee have added an ethnicity diversity target and increased the overall weighting for sustainability-related targets from 15% to 25%.

These objectives and remuneration structures, including any sustainability-related targets, are reviewed annually.

Find out more in the Directors Remuneration Report on page 146

Policy

Our Operational Environmental Policy provides oversight of the requirements we have set for our own environmental footprint from the operation of our buildings, business-related travel and supply chain, and is sponsored by our Chief People and Corporate Affairs Officer.

Across our investments, there are ESG investment policies in place for both M&G Investments and The Prudential Assurance Company Limited (PAC). The M&G Investments Policy is owned by our Chief Investment Officer and the PAC Policy is owned by the Head of Treasury and Investment Office.

Our climate disclosures (including TCFD)

Taking action on climate change is a key priority in our approach to sustainability

Our climate-related disclosures in this report are consistent with the four pillars and 11 recommended disclosures as set out by the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD). Our disclosures this year have been updated to reflect the recommended disclosures in the 2021 TCFD Annex published in October 2021, and have been prepared in line with the all-sector guidance and the supplementary guidance for asset owners and asset managers.

The majority of these disclosures can be found in the dedicated climate-related section of the report on pages 68-89. As climate is a consideration across a number of areas of the business, the table below provides a high-level description of our response to each of the TCFD recommendations, and where relevant disclosures can be found in this report.

TCFD pillars	Description	Further information
Governance		
Board's oversight of climate-related risks and opportunities	The M&G plc Board is responsible for setting our strategic approach to sustainability (including climate) and related values and principles. In discharging its responsibilities, the Board is supported by the Risk Committee, Audit Committee and newly formed Executive Sustainability Committee.	Sustainability governance page 36
Management's role in assessing and managing risks and opportunities	Management's responsibility for assessing risks and opportunities arising from climate change sits with the Group Executive Committee, supported by a newly formed Executive Sustainability Committee. Management of actions and opportunities arising from the assessment of ESG risks (including climate) is discussed at the M&G Risk Committee and M&G Executive Risk Committee, through the Chief Risk and Compliance Officer's report.	Sustainability governance page 36 Climate governance and strategy page 69 Climate risks and opportunities page 70
Strategy		
Climate-related risks and opportunities the organisation has identified	We take a holistic view of climate change risks across transition and physical risks, over a range of timeframes. We have also identified a range of climate-related opportunities, through the setting of appropriate investment strategies, and also through the decarbonisation of our operations as a business.	Climate risks and opportunities pages 70-73
The impact on the organisation's businesses, strategy and financial planning	Acting responsibly is part of our purpose, which informs our strategy. As part of our strategy to deliver targeted growth, we are focusing on using our asset management expertise and scale to invest in thematic and sustainability-focused strategies, including climate solutions.	Climate governance and strategy page 69 Climate risks and opportunities page 70-73 Our strategy page 10
Resilience of the organisation's strategy, based on different climate-related scenarios	As part of our Own Risk and Solvency Assessment (ORSA), we have used our in-house climate modelling to explore potential financial impacts of transition and physical risks through three different climate scenarios (an orderly, disorderly and 'hot house' outcome). In addition to this balance sheet modelling, we have undertaken asset-by-asset climate modelling to better understand risks and opportunities across the investments we manage.	Climate risks pages 70-71 Scenario analysis page 84 Financial statements from page 180
Risk management		
Processes for identifying and assessing climate-related risks	The identification, assessment and management of climate-related risks, along with other ESG-related risks, is integrated into M&G's ESG Risk Management Framework.	Climate risks and opportunities pages 70-73
Processes for managing climate-related risks	We have implemented measures to manage climate-related risks. For our operations, these include environmental policy and supplier due diligence and engagement for our corporate operations. For our investment portfolios, we have implemented our Thermal Coal Investment Policy and a stewardship programme for our investments.	Climate risks and opportunities pages 70-73 ESG risk management pages 37
Integration of climate risks into the organisation's overall risk management	The identification, assessment and management of ESG risk is conducted in line with M&G's Risk Management Framework, with risk governance based on the 'three lines of defence' model.	Risk management page 61

TCFD pillars	Description	Further information
Metrics and targets		
Metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	To assess climate-related risks and opportunities, we focus on all our operational and Scope 1 & 2 investment portfolio carbon emissions. We intend to phase in additional Scope 3 emissions as data becomes more robust, and are developing further metrics to monitor and manage climate-related risks. For example, we have disclosed metrics on financed emissions across our investment portfolios on pages 82-87 where data is available. We do not currently disclose metrics on internal carbon pricing or capital allocation. However we may consider these in future as industry consensus and green taxonomies become more established.	Operational emission metrics pages 74-76 Investment emission metrics pages 82-87
GHG emissions	We have compiled our global GHG emissions statement in accordance with the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. We have also calculated financed carbon emissions and weighted average carbon intensity for a portion of our assets under management.	Greenhouse Gas Emissions Statement page 76 Climate metrics page 82
Targets used by the organisation to manage climate-related risks and opportunities and performance against targets	We have set ourselves near-term operational carbon reduction targets aligned with the Paris Agreement. Find out more about these targets and how they are measured on pages 74-75. We have committed to achieving carbon net zero in aggregate across our investment portfolios by 2050, to align with the Paris Agreement. This is supported by our interim targets, created as part of our memberships of the Net Zero Asset Managers initiative (NZAMi) and Net-Zero Asset Owner Alliance (NZAOA), which are discussed further on pages 78-79.	Our sustainability plan page 34 Operational targets - page 74-75 Investments – implementation strategy pages 77-79

Progress over 2022

To support transparency around climate transition plans, our shareholders were invited to vote on our transition roadmap through a 'Say on Climate' resolution at the AGM in May 2022. A majority of votes cast were in favour of the resolution, but we also received some constructive feedback, which we are taking into consideration as we review and further develop our plan. Taking this feedback into account, in November 2022, we published a further update setting out key ESG developments since the AGM, including progress on interim targets outlined below.

In September 2022, we published our first interim asset owner targets towards achieving net zero by 2050 as part of our NZAOA commitment. Find out more on page 79. Our asset manager also reported on progress against its interim targets, showing that as at 31 December 2021, the emissions intensity (tCO_2e/£m invested) of in scope listed equity and public fixed income investments had reduced by 25.7% and 13.9%, respectively, since 2019. In April 2022, our Asset Manager Thermal Coal Investment Policy came into effect, with a clear engagement-focused approach to phasing out coal in both OECD countries and the rest of the world. Find out more on page 77.

We have made progress in reducing our operational footprint. In 2022, we moved into new offices in Stirling (Kildean), which replaces our Craigforth site. The building is fully electric (supplied by REGO-backed renewable energy) and is significantly more energy efficient than our Craigforth office. We also completed further work with our supply chain in the year, and contacted more than 1,000 suppliers to help us better understand and assess our indirect emissions impact. Our new preferred suppliers list is beginning to incorporate minimum sustainability standards and disclosures. Find out more on pages 74-75.

Priorities for 2023

In 2023, we will continue to focus on actions that will progress us towards meeting our net zero and carbon reduction commitments. This includes identifying investment opportunities in climate solutions and those that support a just transition, embedding our Net Zero Investment Framework across our investment teams, implementing our Asset Manager Thermal Coal Investment Policy, and engaging with our investee companies to bring them into alignment with our climate priorities.

Managing climate-related risks and opportunities, including meaningful delivery against emissions reduction targets, requires reliable data and methodologies and we will continue to develop our analytical capabilities, including use of a new climate scenario model. As major owners and investors in private markets, we will continue to develop new methodologies for measuring private asset emissions, and hope to increase the scope of assets covered by our interim climate targets for the asset manager and asset owner.

Our operational climate priorities for 2023 also include identifying further energy-saving opportunities across our largest sites and continuing engagement with colleagues on how they can support our operational sustainability journey. We will also work with our supply chain to assess their carbon impact, rolling out minimum sustainability requirements for our preferred suppliers and requiring detail on current action and future plans that address their sustainability impacts.

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. We consider all their needs when reaching decisions, responsibly

The following pages provide more detail on how, as a Board, we have fulfilled our duties (set out under Section 172(i) (a) to (f) of the Companies Act 2006) and how we have engaged with and taken account of our stakeholders' interests over 2022. We have also described how we have considered each of our key stakeholders and their views. Links to further information are throughout the Strategic Report.

How the Board fulfils its Section 172 duties

Section 172 of the Companies Act 2006 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 and monitors the culture and values for M&G and this sets the tone of 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 10.

Board skills and stewardship

The establishment of a strong Board is essential for successful stewardship of M&G. We seek to recruit and retain Directors with diverse skills and expertise to govern all 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 101.

Board information

The Board has established guidelines and training for colleagues to ensure that material prepared for Directors is of a high standard and considers all aspects relevant for Section 172, including the long-term impact and how stakeholders 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, risk management and challenge to ensure any decision promotes our long-term sustainable success. The Board uses the Stakeholder Engagement actions summarised on pages 42-45 to inform its decision-making process.

Monitoring and review

The Board receives updates on the implementation of key decisions through management reporting. We schedule and track post-implementation reviews on the Board's forward agenda, so the Board can test its past decision-making.

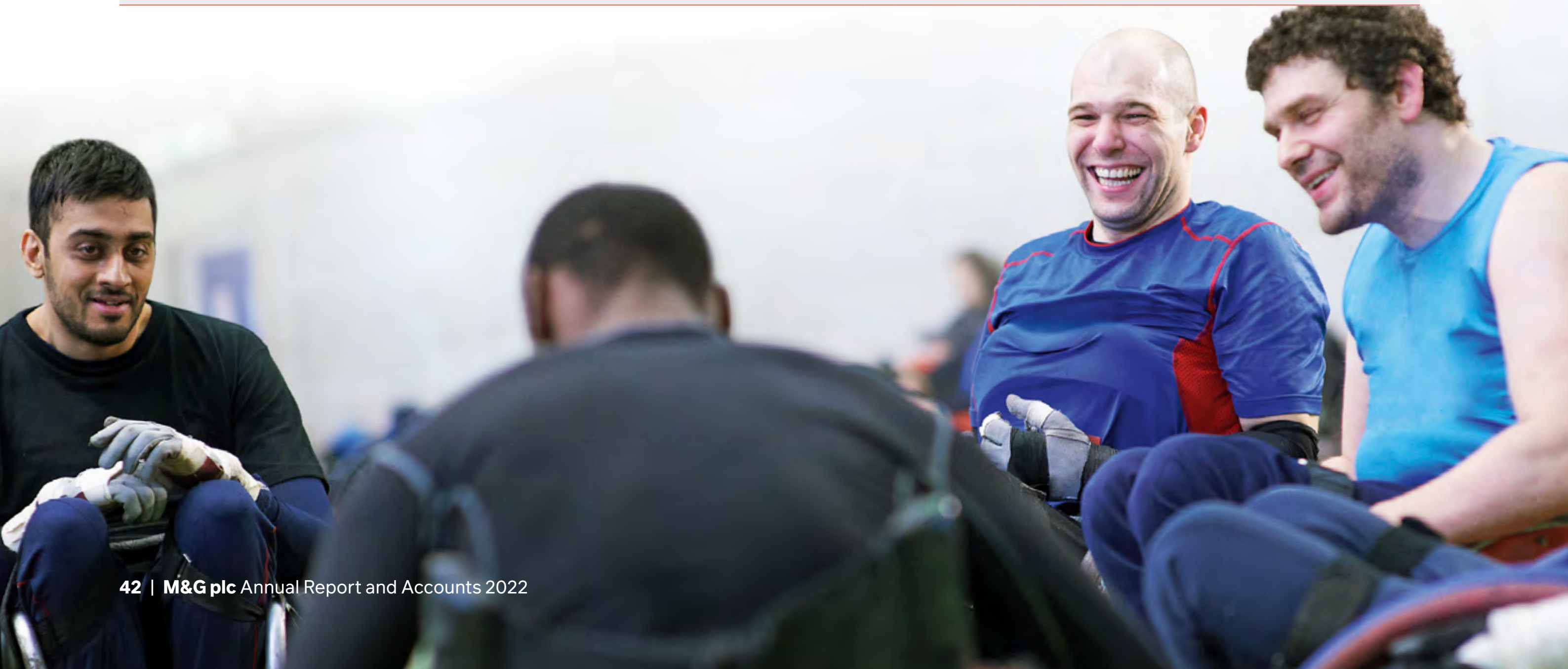
Key decision #1	Key decision #2	Key decision #3	Key decision #4
Acquisition of responsAbility – January 2022 The acquisition of a majority stake in responsAbility Investments AG, a leader in impact investing, which is focused on private debt and private equity across emerging markets.	**Appointment of Chief Executive** The selection, nomination and appointment in October 2022 of Andrea Rossi as Group Chief Executive Officer.	**Wealth acquisitions** M&G's strategy to grow our Wealth business through strategic acquisitions.	**Ongoing relationship with Technology Infrastructure Services** Approving a proposal to extend our relationship with Tata Consultancy Services (TCS) for technology infrastructure services for five years.
Criteria considered **A, B, C, D, E, F**	**Criteria considered** **A, B, C, D, E**	**Criteria considered** **A, B, C, E, F**	**Criteria considered** **A, B, C, E, F**
Stakeholders considered Clients, investors, regulators and communities	**Stakeholders considered** Clients, investors, regulators and colleagues	**Stakeholders considered** Clients, colleagues, investors, regulators and business partners	**Stakeholders considered** Clients, colleagues, investors, regulators and business partners
Decision-making process Our Executive and Strategy teams recommended the proposal to acquire responsAbility to the Board for approval. The acquisition was an important initiative to establish M&G's credentials for impact investing and sustainability Find out more on page 73. The Board reviewed the due diligence undertaken to ensure the talent, capabilities and cultural fit of responsAbility's team were appropriate and considered how it would integrate into our wider business. We considered and evaluated the valuation basis for the acquisition against the strategic benefits for M&G and its potential for future growth, thinking about how the acquisition matched our strategy to drive a profitable international business. Our Risk team also provided an opinion on the strategic risks; operational integration and ongoing oversight; regulatory and compliance matters. This allowed us to properly consider the impact of the new business and ensure we could maintain our high standards of business conduct.	**Decision-making process** The search for a new Chief Executive started with John Foley's decision to retire in April 2022. The Board was supported by the Nomination Committee throughout the process that led to its decision to appoint Andrea Rossi. Andrea's skills and experience across both global asset management and insurance were an ideal fit for the long-term success of our business. For our employees, Andrea provided an inspiring and proven leader. For our clients, he is an industry expert with a focus on client outcomes. Through the usual regulatory approvals process we ensured Andrea met all our regulators requirements and standards. As for all our Directors, we will ask our shareholders to approve Andrea's appointment at the 2023 AGM.	**Decision-making process** M&G Wealth was formed to revitalise M&G's market position and prospects in the UK. The new structure supports better understanding and enabling clients, by responding to structural market dynamics across the value chain and capitalising on the opportunity to meet rising demand for investment advice and wealth solutions across an expanding UK retail market. The Board reviewed business forecasts, which showed that by 2025 M&G Wealth could contribute significantly to new asset flows across all channels (controlled and intermediated distribution). Across 2022, we acquired Sandringham Partners and TCF Investments, entered in a partnership with MoneyFarm and agreed to acquire an initial 49.9% stake in Continuum (Financial Services). As part of its strategic planning, the Board balanced the prospects for these businesses and how they would deliver profitable growth for M&G, as well as the immediate financial impact of the acquisitions, and cash availability for other demands.	**Decision-making process** The Board considered a proposal to continue our relationship with TCS for our technology infrastructure services. The Board's assessment reviewed the quality of TCS's services provided to date and considered plans to expand the scope of the contract to help drive our 'Cloud-Only' ambition. The benefits: operational stability of technology infrastructure services for important transitions during 2024 and 2025; time to decommission legacy infrastructure; and improve efficiency on a like-for-like basis, all supported our strategy to simplify our business, and be efficient in how we serve our clients.

Key criteria –key to decision criteria:
A: The likely consequences of any decision in the long term **B:** The interests of our employees
C: The need to foster our business relationships with suppliers, clients and others **D:** The impact of our operations on the community and the environment
E: The desirability of maintaining a reputation for high standards of business conduct **F:** The need to act fairly as between members

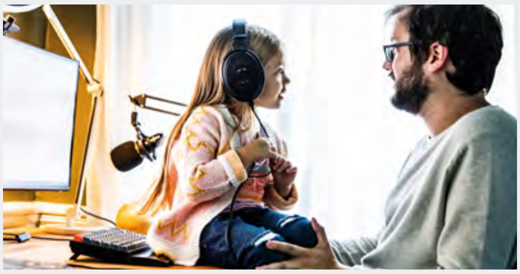
How we engage

Colleagues

How we engage	Action and progress
Culture Programme The Board receives quarterly data, including people data and a culture dashboard in order to monitor the organisation's culture.	Our Culture Programme was a key focus during 2022. The Board recognises its crucial role in overseeing and ensuring stewardship of M&G's strong culture to ensure it remains aligned with purpose, values and strategy.
Colleague surveys Listening to colleague feedback is vital. Our 'OneVoice' survey captures feedback and tracks engagement across M&G. Each function has its own action plan and progress is tracked by and discussed with the Group Executive Committee.	The Board and Group Executive Committee discussed colleague survey results to identify areas for improvement, which were then communicated back to the business. The Board uses this insight from colleagues to shape decisions on employee facing policies and operations. From 2023, we will run quarterly employee surveys to provide more regular feedback.
Employee Voice Our Non-Executive Directors attend Colleague Forum meetings and reflect on feedback they receive during those sessions.	The Board received feedback on the six Employee Voice sessions in 2022, together with high-level observations from participants. In addition, the Board held a session with our Colleague Forum in Kildean during a site visit. This enabled the Board to see colleague and client experiences first hand and apply this when considering client and employee matters in the Boardroom.
M&G Unwrapped and colleague communication As well as colleague messages delivered by senior managers using a variety of formats such as email, video, and interactive virtual meetings, the Chair and members of our Group Executive Committee take part in interviews for 'M&G Unwrapped', a TV-style programme that explores changes in the world and what this means for M&G and our clients. We share these with colleagues via a dedicated communication channel. Find out more about our colleagues on pages 48-51.	'Unwrapped' provides colleagues with valuable insight into how our business is developing, introduces leaders at M&G and provides other practical updates. In 2022, interviews included a joint session with Andrea Rossi and Edward Braham, inviting questions from M&G colleagues. This allows the Board to ensure a strong, aligned and accessible message on our strategy.



Clients



How we engage	Action and progress
Responsibility Our Group Chief Executive Officer leads our Executive team, which has responsibility for clients and is overseen by the Board.	The Board receives regular reports including client feedback, customer scores, servicing and technology issues. In 2023, we will host a Board deep dive on key developments and thematic trends in retail, wholesale and institutional markets. During 2022, the Board established its approach to Consumer Duty regulations and received detailed reports on how this will be implemented.
Strategy The Board approves our client-focused strategy and Business Plan, and oversees our culture to deliver our purpose.	The Board used agenda time to consider several Wealth acquisitions, and our overall plan to support our strategy to offer a full savings and advice proposition to our UK clients. We included several sessions on client strategies as part of our Board strategy offsite in June, including geographic focus, client views on sustainability and customer interaction in the digital era.

Communities

How we engage	Action and progress
Community investment strategy Social responsibility is firmly embedded in M&G's operations around the world as an integral part of the way we do business. Our social purpose 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.	The Executive Committee reviews our corporate responsibility (CR) strategy and performance bi-annually, and the Board annually. In September, the Board and Executive Committee visited the annual CR Show in our Stirling offices, and met our flagship and local charity partners.
Charity partnerships and donations 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.	Our 2022 community investment spend was £4.3 million, of which £3.3 million was cash. Over 1,345 colleagues dedicated 8,964 hours of fundraising and volunteering in their communities. M&G colleagues also donated £165,626 through our payroll giving scheme.
M&G in the Community Fund The M&G in the Community Fund is an annual grant programme supporting local charities and projects with small donations. The Committee includes over 40 colleagues across M&G locations. Find out more about our community engagement on page 54.	The Community Fund has awarded grants to 260 charities globally across our markets.

Investors

How we engage	Action and progress
Results presentation As part of the annual and half-year results, our Investor Relations team produces market presentations covering strategy and business updates, as well as the financial review of the period. We also engage with investors through regulatory reporting, such as the Annual Report and Accounts and the Interim report.	In 2022, we continued to hold hybrid results presentations. In the early morning of results announcement days, we upload a pre-recorded video and transcript of our Group Chief Executive Officer and CFO presentations on our corporate website. We invite sell-side equity analysts and investors to attend a Q&A session with the Group Chief Executive Officer and CFO at our office in London, and offer virtual attendance to all investors to ensure accessibility for everyone.
Meetings, roadshows and conferences Throughout the year, management regularly meets and engages with investors as part of results roadshows, at investor conferences, and sell-side analysts events. We hold a mix of in-person and virtual meetings to maximise investor engagement and efficiently manage time.	Over 2022, we carried out 114 interactions with investors, representing c.54% of our shareholder register, including potential as well as existing investors. In April, we conducted meetings between the Chair and our largest investors to discuss broad governance topics and sustainability disclosure. We also held introductory meetings with our largest shareholders to introduce our new Group Chief Executive Officer and CFO.
AGM The Board recognises the AGM as an important formal interaction with investors. We provide additional dedicated services to our retail shareholders via the Group Secretariat team and our registrar, Equiniti. Key information is on our website (in particular the Shareholder Information section), including relevant material on corporate governance, dividends, the AGM and share dealing, and answers to frequently asked questions.	Our 2022 AGM was hybrid, with shareholders attending both in person and online. 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.
Shareholder climate consultation Before our 2022 AGM, we engaged with major shareholders on our Say on Climate Resolution, to vote to approve our Climate Transition Plan and our climate-related financial disclosures for 2021, and were encouraged that 79.57% of votes cast were in favour of the resolution. We then engaged with major dissenting shareholders on our climate plans, gaining comments on our interim net zero targets for our investment portfolios, and on target-setting and monitoring.	In September 2022, we published our internal asset manager's first formal set of interim targets towards net zero by 2050, and our asset manager's progress against its initial interim targets set in 2021. We then updated our shareholders on this in November 2022.
Remuneration Committee Chair engagement with shareholders We engage with investors on change to remuneration on an ongoing basis.	In 2022, as part of our triennial review of the Remuneration Policy, the Remuneration Committee Chair has engaged extensively with our largest shareholders to gather and reflect their feedback in the Policy. We also engaged with advisory bodies such as the Investment Association and Glass Lewis, who we know provide voting guidance to many of our shareholders.

Regulators

How we engage	Action and progress
Maintaining open and transparent relationships We recognise the importance of maintaining open and transparent regulatory relationships – communicating openly, working collaboratively and providing the Financial Conduct Authority (FCA), Prudential Regulation Authority (PRA) and all our other global regulators with timely notification of issues. We aim to approach our relationship with our regulators, as stakeholders, in an open and constructive manner.	During 2022, ensuring we met both our regulatory obligations, as an independent international business, and the objectives of our policyholders has remained a priority for us.
Engagement The Chair, Group Chief Executive Officer and other Board and Executive Committee members also meet regularly with the regulators and supervisory teams at the PRA and FCA.	The Board and members of the Senior Executive team have engaged extensively with our regulators in 2022 on a range of topics as part of our regular dialogue.
Reporting - Compliance The Board receives a report on regulatory matters from the Regulatory Affairs team within the Risk and Compliance function, at every Board meeting. All relevant regulatory correspondence is made available to the Board in a timely manner via a dedicated Reading Room.	Over 2022, the Board considered and discussed various responses to specific regulator requests and recommendations.

Business Partners

How we engage	Action and progress
Assessing Third Party Risk 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 Risk Committee reviewed the Third Party Risk Management and Outsourcing Policy and its implementation.
Oversight 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 the regular management reporting. Third-Party oversight issues are reported by the second line to the Risk Committee. Board level approval of material partnerships.	The Board reviewed its delegated authority framework and the work done by executives in 2022 to ensure it had the right oversight visibility of strategic partnerships and contracts. The Board approved an extension to our partnership with TCS, to allow for infrastructure transformation and a cloud-only strategy which will help our delivery for clients.
Modern Slavery The Board also approves M&G plc's Modern Slavery statement which, given the nature of our business and our use of third parties, is focused on our efforts to detect and prevent modern slavery in our supply chain.	In 2022, a new training module on Conduct was launched for all employees, which included Modern Slavery topics. The Board undertook this training alongside colleagues.

Our client focus lies at our core

We help clients achieve their financial goals by understanding what matters most to them

We aim to deliver strong outcomes for our clients through innovative propositions that address their financial needs. We work with 490 of our own advisers and have an active relationship with more than 3,000 advice firms. We manage savings for 4.8 million retail clients across all age and wealth brackets. In our Asset Management business, we manage assets of over £150 billion on behalf of institutional investors, global banks, discretionary and advisory clients, working closely with intermediaries and investment consultants to meet our clients' needs across a broad range of strategies.

Such a broad base gives us a privileged window into what matters most to our clients and their advisers, and helps us to deliver relevant, high-value investment outcomes.

We are a responsible corporate, aiming to make financial advice more accessible, and advancing sustainability inside and outside M&G. In line with our strategy, we are transforming and simplifying how we operate, and investing in digital capabilities to become more efficient.

Engaging with our clients to understand them better

Research and engagement with our clients helps us better align with their needs, and informs how we design our products, customer journeys and communications.

In the UK, we are positioning ourselves for the structural changes within the UK defined benefit corporate pension fund market, following the fallout from the 'mini' budget in 2022, as many of our clients look to de-risk on the path to buy-out or self-sufficiency. We continue to emphasise strategic partnerships, both through funds and bespoke solutions.

Our in-house insights and strategy team leads on all our research and provides content for Our Insights Hub, launched in April 2022. We regularly share our plans and seek retail client and adviser insights through MyView.

In 2022, we explored how M&G can best support clients facing the cost-of-living crisis (COLC), so we can provide appropriate support and help retail clients understand how to manage long-term financial plans, as well as signposting them towards support. We are reshaping M&G's COLC strategy going into 2023 and updating materials to support retail clients and advisers.

In 2022, MyView held its first in-person events with retail clients since the pandemic to discuss how M&G can better support them in achieving their financial goals. Resulting actions and insights are shaping our client priorities in 2023, including:

- Digital journeys: better signposting to M&G's digital tools, guidance and advice
- Communication: including value of funds and changes, and regular updates on market activity
- Accessibility: ensuring M&G services are accessible for a less digitally native generation
- Sustainability: educating investors on climate change

We also work closely with our wholesale and institutional clients around the world to understand how their needs, and those of their underlying clients, are evolving. We then tailor strategies to client objectives, such as sustainability.

In 2022, Asset Management undertook...

- 1,681 sales-led events with M&G investment professionals
- 102 live events
- 75 webcasts with almost 4,800 live viewers

Being easy to work with

In 2022, we focused on simplification, stabilisation and excellent service to make doing business with us easier for clients and advisers, while laying the foundations for future growth and ongoing improvement.

Our multi-channel advice offering combines digital journeys with access to human-based advice.

Helping our clients to adopt digital channels is strategically important and enables us to offer a better experience, so we are driving more retail clients and advisers to self-serve and to think "digital first". It is also helping us gather useful client information, provide a more efficient service and speed up our internal processes.

We've grown The Advice Partnership (TAP), through the Advice Academy, to address the gap between the number of advisers in the marketplace and the growing need for financial advice. TAP clients can access advice on investments they hold outside M&G, empowering all TAP advisers to set their own price for their services through flexible charging; and launching TAP new foundation platform to support new recruits.

Over 2022, we also developed digital pension claims, and extended the digitisation of our retirement options process. For advisers, we've improved the digital experience for our platform business – making it more intuitive for advisers to manage their clients and holdings.

MAP, our human-led, digitally supported advice service, now has 1,100 clients, doubling last year's inflows to £100m. We've made the service available to more people by extending our eligible client base and, by providing cheaper advice to more clients, we are helping to bridge the advice gap. Our new digital appointment booking process means retail clients can book their own meetings, saving advisers 25% of their time.

Our net promoter score has improved over 2022

Our net promoter score (NPS) is a measure of how likely clients are to recommend us to other people.

Our NPS for Retail and Savings, which covers both Wealth and Heritage clients, has improved to +14 at the end of 2022, from +9 at the end of 2021, against a target of +11.

> “We absolutely act with integrity. We take ownership and accountability to do what’s right for our our clients.”

Mandeep Chana
Commercial team Category Manager

Bringing clients along on our sustainability journey

We recognise that we need to bring all our clients with us on our sustainability journey, and we are addressing this with innovative sustainable and focused products and education, as well as wider community support. Find out more in our Social impact section on pages 52-55.

We continue to support the transition of many funds by enhancing their ESG characteristics. By early 2023, over 75% of total wholesale SICAV funds will offer our clients different levels of ESG-enhanced, sustainability and impact funds.

We launched our Real Asset Impact Fund in 2022, focused on agriculture, infrastructure and natural capital. This is complemented by funds offered by responsAbility. We also launched two Catalyst Credit and Catalyst Capital Funds.

Responsible and ESG investing can be confusing, so we ensure our clients are well informed. We are removing jargon from our communications and providing more detail to ensure clients better understand this emerging genre of investing.

In September 2022, we launched The Active Impact Community (AIC) platform for people in the UK to discuss sustainability and investments. The AIC offers fresh insight and a new audience to M&G focused on sustainable investing.

Making more advice available to more people

We help UK households save for their future by improving access to products and making financial advice more accessible. Under the Pru brand, we supported the “Pension Attention” campaign in July 2022: a cross-industry collaboration co-ordinated by the Association of British Insurers and the Pensions and Lifetime Savings Association.

Over 2022, we have made the PruFund Planet range of funds available to more clients and advisers by adding it to the M&G Wealth Platform, as well as launching model portfolios. Over 2023, we will be helping retail clients better access useful fund information, improving investor comprehension and understanding of funds. We developed our new &me app with MoneyFarm in 2022 for launch in 2023. Powered by M&G Wealth, the app gives clients the ability to search for future investments, using a personalised approach.

Supporting our Heritage clients to ‘go digital’

Over the past four years, we have transformed our online services for retail clients and advisers. Our digital offering is easily accessible and our registered digital client base has grown from 5% in 2018, to 22% by the end of 2022, with over 520,000 clients. We proactively engage with clients and closed 87% of escalated engagements within 24 hours over 2022, rising to 100% of escalated engagements in December 2022.

We offer a range of services and capabilities, and digital communication channels that allow clients and advisers to self-serve - or send us a question or request - 24/7.

We proactively engage with our Heritage clients about their savings and pensions needs, helping them move to relevant savings solutions as they reach retirement. In 2022, we invested in call centre client support and our digital capabilities, and 83% of all registered clients are now registered paperless.

Our overall service has improved across all areas of our Heritage business, and client queries are now resolved more easily and quickly. As a result, clients are contacting us less.

Thinking digital first

- 20% of Heritage clients registered for online services (2021: 17%)
- 83% of registered Heritage clients are now paperless (January 2022: 80%)
- 21% of Heritage servicing interactions are digital (January 2022: 17%)

Better understanding client needs

Helping advisers to provide the best possible client service

We’re helping clients manage and grow their savings and investments, responsibly. Paul McGregor is a financial adviser with TAP in M&G Wealth. “People come to M&G because they believe in our products and services, and I step in when needed to underpin this with bespoke financial planning.

“What matters to me is having the opportunity to make a positive change in people’s lives. I invest my time in understanding what people really want to achieve, and aim to provide clarity and confidence to support wise financial decision-making.

“The evolution of services in M&G Wealth such as MAP, our hybrid financial advice service for UK pension clients, means that clients have different options, and I can focus my energy on clients where I can provide the most value.”

Evolving our people approach to support our growth

We're committed to creating an exceptional place to work – by building a safe, inclusive and diverse culture and developing market-leading people policies

Inspiring people to do their best

Our purpose at M&G is straightforward: to help people manage and grow their savings and investments, responsibly. We also have a big responsibility to do what's in the best interests of our colleagues.

Our ambition for M&G is to create an exceptional place to work: a positive environment where our colleagues enjoy each day and feel inspired to do their best for our clients. We want to make working lives at M&G engaging and fulfilling: we are creating a safe, inclusive and diverse culture, which encourages our core behaviours of inspiring others, embracing change and delivering success, while keeping things simple.

Our people approach is always adapting to reflect what our colleagues want and need. We are introducing new ways of engaging with colleagues so we can listen more effectively and gather more data on what they want. We are developing market-leading, progressive people policies that meet the various life stages of all our colleagues, and creating simplified ways of working through new internal processes. We are also increasing our external partnerships and ensuring we continue to build a diverse team.

We believe that a strong culture is key to our success. To ensure we maintain this, we constantly monitor different elements that we believe contribute to our culture: from our client-centric approach, to how we interact with our colleagues.

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

Over 2022, we've continued to develop policies and people processes to live our behaviours every day, such as our new "Say Thanks" app, launched in 2022, which reinforces behaviours for everyone at M&G to call out great things colleagues have done and say thank you.

Our culture

- **Client-centric**: clients are at the heart of everything we do
- **Accountable**: everyone has ownership and responsibility for doing the right things and delivering for our stakeholders
- **One team**: aligned to a common purpose, strategy, and way of behaving
- **Inclusive**: embraced in all we do to ensure everyone can bring their true selves to work
- **Safe**: colleagues can speak up and feel able to challenge
- **Respectful**: we share a common understanding of how we should work

Engaging with colleagues to create positive change

We continually encourage, listen to and act on colleague feedback, so we can uncover opportunities to improve, as well as strengths to leverage, and create positive change. Our annual OneVoice survey helps us understand and drive action to improve colleague engagement at M&G.

> "Our performance in 2022 is testament to the hard work of our talented and dedicated colleagues, and our excellent culture."
>
> **Andrea Rossi**
> Group Chief Executive Officer

Our response rate for this survey was 79% in 2022 (2021: 75%). We scored highly in awareness of culture and purpose, while colleague responses showed key areas to prioritise in 2023 are barriers to execution and team collaboration. With our simplified structure and refreshed strategy, we are removing processes that overcomplicate and hinder individual progress, such as barriers related to technology. In 2023, we will be expanding on-site IT support across UK offices to resolve IT issues more quickly.

We are focused on improving our data gathering and delivery of colleague feedback to evolve our people policies. In 2023, we're moving to quarterly employee engagement surveys with a new provider, which will provide us with more data to act more effectively on feedback, as well as giving colleagues an improved experience. Our new way of measuring engagement tracks how happy people are at work and whether they would recommend M&G as a great place to work. We believe short, simple feedback surveys taken more regularly will create more timely, accurate, and relevant insight into what our people want.

"Unwrapped", our new TV-style programme for all colleagues, looks at what's changing in the world around us and what this means for M&G and our clients. Over the year, we've included Q&As with our management team and insights into different areas of the business, and our Board ran a series of interactive sessions to hear directly from colleagues. Our other engagement initiatives, such as town hall events, Colleague Forum meetings, and Q&A sessions with leaders, also help us to understand more about what our colleagues think and feel.

72

Employee sustainable engagement score.
Employee engagement is the degree to which employees invest themselves to drive positive organisational outcomes

Diversity and inclusion throughout M&G

We know that continuing to improve diversity at M&G makes good business sense. A key part of our growth strategy is investing in our talent and capabilities. We recognise that our industry has traditionally not been diverse and so we take a holistic approach to improving diversity across our talent management life cycle, as well as actively supporting industry-wide initiatives to develop diversity in the finance industry.

Increasing and celebrating diversity and inclusion (D&I) at M&G is embedded in how we work. We have a five-year plan, clear governance model, and different D&I reporting metrics to ensure process, planning and accountability. From building our leadership team to how we hire graduates, we have five global workstreams that support our ambition of building the most inclusive culture, covering disability, gender, ethnicity/nationality, life stages and LGBTQ+. Our recruitment process increasingly has our behaviours embedded within it: we now ask specific questions to ensure interviewees align with how we behave at M&G.

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; and Mind Matters, our mental health and well-being network.

Our mean gender pay gap for 2022 is stable at 29.2% (2021: 29.3%) and the mean ethnicity pay gap was 5.5% (2021: 5.7%). We are proud to have been one of the first companies in our sector to publish an ethnicity target in leadership and voluntarily publish ethnicity pay gap data. We are now reporting our third year of ethnicity pay gap data.

Find out more about our D&I approach in our sustainability section on page 32

Find out more about our Board gender composition on page 97

Act responsibly

Helping young people to reach their full potential in our industry

We sponsor Urban Synergy, an award-winning youth empowerment charity. In 2022, M&G created a bespoke programme of events to empower young people and help them to reach their full potential.

Over the past year, we've run different events and initiatives with Urban Synergy to give more young people the opportunity to learn more about our business and our industry:

- Work Experience Week with M&G: 11 students joined us for a week to improve their understanding of asset management, savings and investments, and highlight different career opportunities available at M&G. In December, our Apprenticeship Scheme Manager won the Urban Synergy Work Experience Hero award.
- Financial literacy: we linked up with Lemonade Reward, a financial well-being business, to deliver a session to provide young people with the skills and knowledge to manage money effectively, and to build foundations and understanding for improved financial decision making.
- Recruitment: we delivered recruitment masterclasses to give young people the best opportunity at starting their careers. These workshops focused on developing skills at different stages of the recruitment process, including interview skills, preparing for aptitude tests, and 'bringing your best' at assessment centres.
- Apprenticeship scheme: students visited our London office in March and December as part of an Industry Insights event, which included an introduction to our business, meeting colleagues, a tour of the building and finding out more about our apprenticeship scheme. Two students were recruited into M&G's 2022 apprentice intake and are now making great progress on their apprenticeship journey.

Measuring D&I at M&G

Our targets ensure we are focused on becoming more diverse and inclusive:

- **Diversity in senior leadership:** 40% women and 20% ethnic diversity in senior leadership by 2025: At end 2022: 37% women (2021: 35%); 12% ethnicity (2021: 13%) in senior leadership
- **Colleague Inclusion Index:** We aim for annual improvements in our Colleague Inclusion Index. From 2022, this is based on new questions and a different scoring methodology. Our 2022 score of 69 will be our baseline, and we will monitor this on a quarterly basis.

We are an active part of positive D&I change in our industry. We sponsor the Financial Services Skills Commission, resulting in the development of the Inclusion Measurement Guide, a framework that encourages the financial sector to consistently measure inclusion.

We are building partnerships with social mobility charities, including Urban Synergy, the Talent Foundry and Leonard Cheshire, improving diversity in our own talent pipeline and building our community outreach.

We hire using diverse job boards, and post all investment and asset management roles on Black Women in Asset Management and Evenbreak, a job board connecting disabled candidates with organisations. We have increased access to more diverse interns, graduates and apprentices. In 2022, 19 apprentices joined us in September (2021: 19), with 26% from Urban Synergy and Talent Foundry. We received more applications from male candidates (72%), but 42% of our cohort was female. We also increased the number of neurodivergent candidates and those from lower socio-economic backgrounds, as defined by the Social Mobility Index. Our apprenticeship programme retained a high ranking in the Top 100 Apprenticeship Employers League Table for the insurance, asset and investment management industries, and has been one of the leaders in our sector for the past three years.

Our Aspire career exploration programme is building diverse teams of colleagues in front office roles, while providing more opportunities for internal mobility:

- Our partnership with Everywoman, a global learning and development platform, provides access to educational resources, advice from senior women in business and a network of global organisations.
- Our membership of 100 Women in Finance, Black Women in Asset Management, and LGBT Great expands our ability to offer colleagues opportunities for mentoring, development and networking, to enhance their career growth.

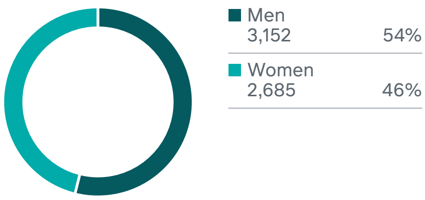
Redefining traditional approaches to colleague well-being

Looking after colleagues' health and well-being is at the centre of our ambition to make M&G an exceptional place to work. We are constantly looking at how to adapt, modify and introduce new technologies so our colleagues can access the support and resources they need, regardless of their location.

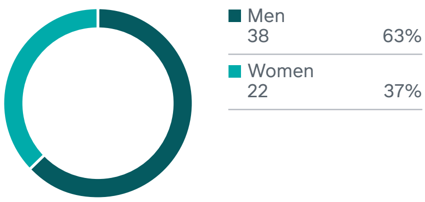
Our HR policies are evolving to support colleagues and give them the freedom to achieve a healthy work-life balance and positive well-being, while making sure we do what is best for clients. We have redefined the traditional definition of well-being to provide a more holistic approach: from physical support such as yoga classes; to mental well-being support, such as addressing the impacts of grief; and financial well-being, addressing economic pressures.

Our Inspiring Families policy evolved in 2022 to include neonatal support. We also launched our non-gender-biased menopause policy, covering menopause, perimenopause and hormonal imbalances, and signed the Menopause Pledge to demonstrate our commitment to providing greater menopause support.

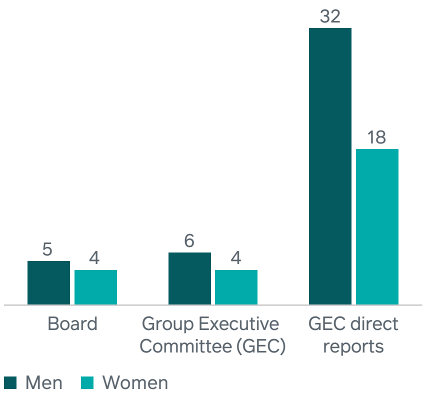
Employee gender
%



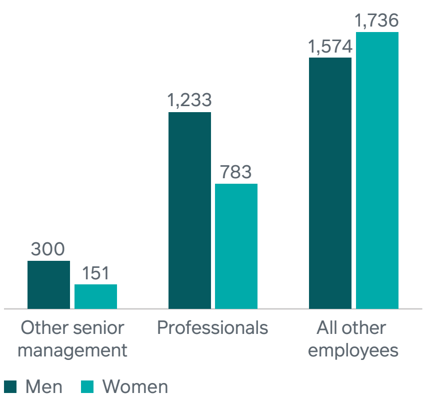
Group Executive Committee and their direct reports gender
%



Employee profile gender diversity
Number of people



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 is shown above and the Board data is shown on page 97. '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 managers' from the chart above. On this basis, we have 509 senior managers (337 male, 172 female).

The tough external environment in 2022 affected mental and financial well-being for many. We provide colleagues with 24/7 access to well-being support via our well-being hub. Our "Well-Being Wednesday" sessions expanded in 2022 to provide colleagues with resources on topics including financial well-being, menopause and men's health. Over 2022, colleague usage of the M&G well-being OnDemand channel was up 87%.

As a Living Wage employer, we committed to a one-off non-pensionable payment in 2022: all UK colleagues earning under £50,000 received £1,200, while Eurozone colleagues earning under €60,000 received €1,200. We have promised to continue monitoring the situation our colleagues are facing, and our approach to the 2023 UK salary review was weighted towards providing financial support to colleagues in the lower and middle ranges of our salary bands.

We are integrating well-being into our broader approach to ESG: covering inclusion, global warming, environment and community. Our GO-vember international well-being challenge did just that – involving over 670 colleagues. Over 120 million steps that we recorded during November 2022 contributed towards planting over 700 trees in partnership with The Tree Council, funding resources in schools for disadvantaged students and refurbishing homes for those experiencing homelessness. Find out more on how we engage with local communities to create social impact on page 52.

> "Working at M&G, you very quickly recognise the importance of your work and our duty of care to do our best for our clients."
>
> **Nina Bamford,**
> Global People Development team

Developing learning and development to match needs

Our aim is to ensure that our colleagues have access to high-quality learning solutions and experiences aligned with changing needs, enabling them to develop and perform at their best.

Our online solutions enable our colleagues to access learning from anywhere, at any time that suits them.

We recognise that one of the most critical things in creating the right working environment is how we recruit and develop managers, and we have changed our approach: we now have specific assessment tools we use for recruitment.

We want to make sure that every colleague is led by an exceptional people manager who can help them fulfil their potential. We've launched an expectations model – a common language across M&G setting out the exceptional behaviours that all colleagues can expect from our people managers. We've also continued to invest in developing our people managers: 98% (1,318) have now joined our People Manager Academy, gaining access to targeted learning and resources and the opportunity to connect and collaborate with other people managers globally. Over 10,000 academy learning hours were delivered across 2022.

During the year, over 1,250 colleagues enrolled in workshops aimed to ensure they felt connected, included and engaged within a hybrid working environment.

We also simplified our end of year performance review process and provided training for colleagues and managers, to ensure they get the best out of their performance conversations.

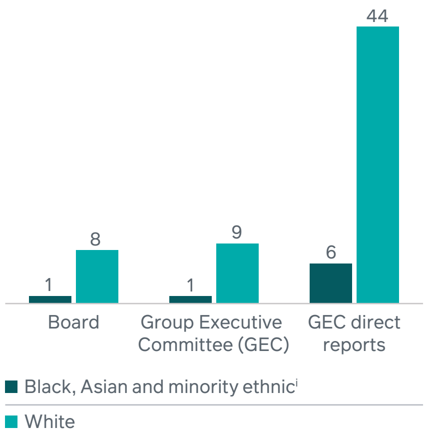
Accreditations and awards

- LGBT Great gold standard
- Became members of the Armed Services Covenant and received Silver Level employer recognition
- Top 75 Employer in the Social Mobility Index
- Fabiana Fedeli, Chief Investment Officer – Equities, Multi Asset and Sustainability at M&G, was named one of Financial News's 100 Most Influential Women in Finance

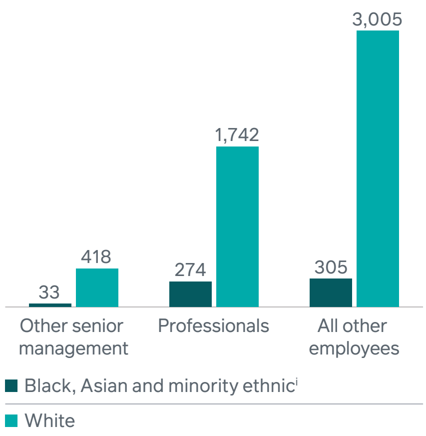
Employee ethnicity
%

Group Executive Committee and their direct reports ethnicity
%

Employee profile ethnicity diversity
Number of people



Employee profile ethnicity diversity
Number of people



i Includes our undisclosed population.

All data in graphs as of 31 December 2022.

Building safer and stronger communities together

We invest in and support the communities where we live and work around the world

Social responsibility is firmly embedded in M&G's operations around the world, as an integral part of how we do business. We aim to use our community investment to help break down barriers that prevent people from living the life they want, and to provide a framework for community engagement and support at both a strategic and local level.

Our social purpose is to help build inclusive and resilient communities through urban regeneration, economic empowerment and community building. We work closely with our charity partners to develop strong, sustainable projects that meet local needs.

Our purpose
To help people manage and grow their savings and investments, responsibly

Breaking barriers, building futures
Helping to build inclusive and resilient communities

Urban regeneration	Economic empowerment	Community building
Nurturing spaces and places that help people and nature to thrive	Giving people skills and opportunities to become financially secure	Building and strengthening relationships within and between communities

Disaster and emergency response

Urban regeneration: Nurturing spaces and places that help people and nature to thrive

Habitat for Humanity

Through our partnership with Habitat for Humanity GB, we aim to help deliver the Empty Spaces to Homes programme in the UK and Europe. We are renovating buildings: turning unused spaces into homes for vulnerable groups, including refugees, women fleeing domestic abuse, young care leavers and low-income families.

To date, we have renovated 8 empty spaces into homes in England (London) and Poland (Warsaw and Silesian Region), and construction is currently underway on more properties, including new locations across Europe.

To address the social housing crisis, we have created two sister coalitions in England and Poland, which are developing a toolkit for repurposing empty commercial and office spaces. We hope to mainstream this model into the work of other NGOs, public and private sector organisations.

The impact of the Habitat project in Poland this year has already gone beyond individuals living in the renovated properties: the Empty Spaces to Homes research and toolkit enabled Habitat Poland to co-lead the shelter response for refugees in Poland alongside the UNHCR (the UN Refugee Agency).

> "The Empty Spaces to Homes programme is raising the standard and expectations of care locally. Thank you M&G, for making this happen."
>
> **Lydia Freeman**
> Children's Care and Support, London Borough of Barking and Dagenham

The Tree Council

M&G want to give young people the opportunity to connect with each other, trees and nature, and to develop the skills and knowledge to help tackle the climate and ecological crises.

We have partnered with The Tree Council, a national charity, to support schools in urban areas with high levels of deprivation (30% free school meals) and nature-poor grounds. Between 2019 and 2022, our partnership has enabled 96,474 students in 325 UK schools to take part in The Tree Council's 'Young Tree Champions' programme. School children across the country have planted 2,705 wildlife-enhancing trees in orchards, hedgerows or as standalone trees to green their school grounds, getting their hands dirty and connecting with nature. Together we have also enabled The Tree Council to deliver training to more than 360 teachers, who have embedded the programme in their curriculum. School achievements are celebrated each year during the UK 'Force for Nature Tour and Festival' held at school assemblies, workshops and online.

96,474

students in 325 schools have taken part in The Tree Council's 'Young Tree Champions' programmes since 2020

Act responsibly

Creating a greener future

Plantation Primary School in Liverpool has embedded the Young Tree Champions programme across all year groups over the past two years. It is now engaging neighbouring schools to propagate trees from seed and plant them out in their school grounds next year. Plantation Primary also received a school visit during the Force for Nature tour. The Tree Council team delivered informative and hands on tree health workshops in the school's grounds. "I just wanted to say a huge thank you to The Tree Council for an amazing day yesterday. The kids haven't stopped talking about it and are asking about how they can become tree champions, which is just amazing."

Clare Jones Teacher, Plantation Primary School, Liverpool

> "The Skills for Life workshops are fantastic. They are heavily focused on creativity and problem-solving skills – exactly what our kids need."
>
> **Teacher**
> Doon Academy, East Ayrshire

Economic empowerment: Giving people the skills and opportunities to become financially secure

The Talent Foundry

Many disadvantaged students are disproportionately affected by economic challenges including the cost-of-living crisis. By expanding our long-standing Skills for Life programme, we increased our support to disadvantaged young people in 2022.

The Skills for Life programme consists of interactive workshops delivered in person, an online digital platform, and a CV review service by M&G colleagues. These opportunities support students in understanding how best to promote themselves when they are applying for jobs, university, or apprenticeships.

In 2022, we reached 3,866 students from over 80 UK secondary schools. More than 500 hours of volunteer time was donated by 130 M&G colleagues.

We also introduced Bridge to M&G, a pilot pre-apprenticeship programme providing bespoke training and coaching support for school leavers who wish to pursue vocational careers. This programme helps to identify apprenticeship opportunities, and helps students prepare for applications and assessment centres.

In 2022, students from 11 schools and colleges completed our Bridge to M&G programme, and three students went on to secure apprenticeships with M&G.

> "The best part of 10X is the opportunity to apply the skills I developed – such as teamwork and communication – further on in my life."
>
> **10X student**

Junior Achievement Europe

The 10X Challenge is an enterprise programme and digital platform that 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.

With M&G's support, the programme now engages students in schools across France, Germany, Ireland, Italy, Poland, Spain and the UK. From 2020 - 2022, 73,670 young people have taken part in the 10X Challenge across the countries.

SOS Children's Villages

This international 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 support 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.

73,670
young people have taken part in the 10X Challenge since 2020

Act responsibly

Equipping vulnerable people with skills and knowledge

Ambika lives in Bangalore, India, with her husband and three children, and the support provided by the Family Strengthening Programme over the last five years has been life changing.

Ambika's children were all anaemic and underweight, so SOS Children's Villages provided Ambika with nutritional supplements to help restore their health and information on the importance of a balanced diet. Her children also received support with tuition fees and school supplies, allowing them to attend school on a regular basis.

Ambika also enrolled in one of SOS India's Self-Help Groups, which equipped her with the skills and knowledge to help her manage her money, including getting a personal bank account and learning about savings and insurance. Through the Self-Help Group, Ambika also took lessons in entrepreneurship development, financial literacy, communication, and parenting skills. Along with her husband, Ambika now makes a comfortable living selling vegetables.

Community building: Building and strengthening relationships within and between communities

Age UK

Age UK and M&G's strategic partnership is based on a shared goal to help vulnerable older people prepare for the biggest challenges of later life, giving them the best chance of staying resilient through the toughest times.

In 2020, we introduced Building Resilience, a three-year programme providing holistic support to older people facing complex challenges. The programme includes in-depth information and advice, support and referrals to appropriate services through Age UK's National Advice Line.

Now in its third year, M&G's support has enabled Age UK to help 4,470 older people, equipping them with tools, skills and opportunities needed to build resilience, and supported 24,852 older people through calls to Age UK's National Advice Line.

Building futures around the world

Volunteering

Being a socially sustainable business isn't just about responsible investing - but also demonstrating our commitment to the communities in which we operate. Colleague engagement is a crucial part of this: many of our colleagues are committed and involved in community activity. We believe in giving our colleagues the time and financial support to help charities in diverse communities across the world. We know that our colleagues feel proud to be part of our different initiatives to support our communities, and this also provides a strong sense of connection and engagement.

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 Committee includes over 40 colleagues across M&G locations and, since its launch in September 2019, has awarded 260 charitable grants globally.

Local community grants

Our network of community champions across our offices are an important part of how we connect with our surrounding communities, and they lead and promote local charity fundraising and volunteering.

Working together, we direct funding and volunteering through our local community grants, giving our colleagues ownership and the ability to choose where to focus their support.

Since we launched Building Resilience in 2020:

4,470
older people supported through in-depth one-to-one information and advice sessions

£11m
worth of unclaimed benefits identified

24,852
calls answered by Age UK's National Advice Line

Disaster and emergency response:

Responding immediately and effectively when a disaster strikes

We are committed to helping communities across the world in times of crisis or emergency. We feel it is our responsibility to make a meaningful contribution in the most appropriate and prompt way.

We work with national and international charity partners and provide opportunities for colleagues to engage and get involved where possible.

Helping our communities through the cost-of-living crisis

The cost-of-living crisis is now stretching small charities, already under pressure following the pandemic.

In 2022, we seed funded the Communities in Crisis Appeal in partnership with UK Community Foundations. This was a co-ordinated and swift response to raising national funding and distribution to grassroots organisations working on the frontline in some of the UK's most deprived communities.

Funds have been channelled towards responding to immediate needs directly caused by the crisis, ensuring organisations can help the most vulnerable. This has included contributions to energy costs at collective warm spaces and community centres, core support for services that provide food, security and debt advice, and housing and mental health service support.

Supporting refugees in crisis

In response to the Ukraine crisis, M&G made emergency corporate donations in 2022 to support the relief efforts of our established long-term charity partners on the ground - SOS Children's Villages, Habitat for Humanity, and through the British Red Cross.

Our strategic, two-pronged approach helped enable immediate humanitarian aid as well as the provision of longer-term, affordable housing support to those displaced by the conflict.

SOS Children's Villages provided immediate assistance with humanitarian aid, identifying children in high-risk areas and moving them to safer parts of the country. Counselling and mental health support is a key part of the care provided, as these families have experienced severe trauma.

Our donations supported the Ukrainian Red Cross Society to carry out repairs on vital infrastructure such as water stations, homes, healthcare centres, schools and community centres. It also helped to enable the supply of medicines and medical equipment to hospitals and primary health care facilities and supported the provision of food and hygiene items.

Habitat for Humanity in Poland, Hungary, Romania and Slovakia worked with partners from other NGOs in a united response to provide for longer-term affordable housing needs. Our colleagues in Poland also worked with the charity to support refugees arriving in the country.

Governance

Our operating model for Corporate Responsibility (CR) guides and supports each office to manage charitable activities, within the framework of a consistent, business-wide approach. Our CR Governance Committee oversees community investment activity as well as agreeing strategy and spend. It includes representation from senior management. Our CR strategy and performance is reviewed by M&G's Executive Committee bi-annually.

The CR team is responsible for managing all our CR activities: devising community investment initiatives, measuring impact and spend, and tracking performance against annual competitor benchmarking, as well as refining issues of key social importance to M&G, and determining where we can have the greatest social impact.

Charitable donations

We calculate our community investment spend using the Business for Societal Impact standard (B4SI). This includes cash donations to registered charitable organisations, as well as a cash equivalent for in-kind contributions. Our total community investment spend in 2022 was £4.3 million, of which £3.3 million was cash. The balance included in-kind donations prepared in accordance with B4SI guidelines. This included 1,345 colleagues who dedicated 8,964 hours of fundraising and volunteering in their communities. Furthermore, £165,626 was donated across the business by our employees through our payroll giving scheme.

£4.3m (A)

Total community investment spend in 2022

8,964

Total volunteering hours

(A) PwC has provided independent limited assurance over the total community investment spend in 2022 (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.

Act responsibly

Funding education through charities

Our colleagues in Italy have used their local community grant to support Ewe Mama Onlus in Uganda for the past two years. The charity provides training and school education to some of the most vulnerable in Rwentobo. The charity has built a vocational school for boys and girls, including those with disabilities and an orphanage for girls.

Thanks to M&G's support, the school has expanded to build a new nursery for up to 200 children. Funds have also been used to build a dining hall, and renew all the fences and gates on the perimeter. The dining hall will be used by the nursery children, as well as the wider community for educational and recreational activities.

Playing our part as a responsible business

As a responsible business and as part of our corporate responsibilities, we've developed new policies/standards and enhanced existing policies to reflect our continued commitments to ESG, our employees, social matters, human rights, and anti-corruption and anti-bribery

Anti-corruption and anti-bribery

We're committed to the highest levels of integrity and business conduct and have a zero tolerance approach to bribery and corruption, given its adverse impact on society and undermining of economic development.

We require all colleagues, including firms that conduct activity on our behalf, to adhere to M&G's financial crime compliance policy and standard 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 colleagues (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 or cause significant damage to M&G's reputation.

Human rights

Our business is built on our core values of care and integrity:

Care – we act with care, treating our clients and colleagues with the same respect we would expect ourselves and we invest with care, making choices for the long term.

Integrity – we empower our colleagues at M&G 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.

Care and integrity extend beyond our company into the communities and societies within which we operate. A significant consideration to how we do business and make the world a little better along the way is a commitment to support and respect 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 and with integrity in everything we do. We are committed to working with all our suppliers and stakeholders to help end slavery, human trafficking, child labour or any other abuse of human rights.

As an international company, we operate within many countries and communities. We aim to comply with local laws and regulations in every jurisdiction where we operate, and strive to uphold the principles and expectations outlined in our Statement of Human Rights.

Our M&G Supply Chain Modern Slavery Business Standard is reviewed and approved annually. This supports the management of modern slavery risk and how we approach third-party supplier relationships.

The Standard details how M&G defines this risk and how we mitigate it within our corporate activities, outlining our internal processes to identify potential exposure, how we effectively monitor our suppliers, escalate any known/potential exposures and actions that need to be taken to assess viability in greater detail.

Every year, we assess our approach and ensure we meet the minimum standards stipulated by the UK Home Office, as well as ensuring we are compliant in our license to operate in line with the Modern Slavery Act 2015 (MSA). We regularly review how we embed non-financial risks 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.

> "Human Rights concerns all of us and is core to our business interests. We believe in supporting Human Rights by acting responsibly and with integrity in everything we do."
>
> **Emma-Grace Brien**
> Supplier Risk Management Specialist

Our Commercial Procurement teams across our UK businesses have embedded a co-ordinated response to the requirements of the MSA, with a focus on our external supply chain:

- Our Commercial Procurement team highlights within all tender activity our expectations around modern slavery, regardless of the supplier statutory position (suppliers under the £36 million threshold, as set out in the MSA, are not exempted from our requirements).
- M&G has a Code of Conduct and Supplier Code of Conduct, which we regularly maintain. Both outline the standards that we expect our suppliers to adhere to, 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 have appropriate standards in place, we will work in close collaboration to improve standards.
- We focus our ongoing monitoring on onboarding new material suppliers to M&G, building on previous years' reviews of our supplier base. We have previously undertaken exercises to review the common procurement category themes and measure our potential exposure to modern slavery risk.
- As part of our ongoing ESG initiatives we have carried out in-depth reviews on M&G's high risk suppliers with UK originated spend, so we understand the potential inherent risk to our business. We have taken the necessary steps to identify opportunities to improve standards. We will continue to work with suppliers to align their approach to M&G.
- In June 2022, we produced a new training module for all M&G employees to complete: Conduct at M&G.
- This course covered five subjects including Modern Slavery, and provided colleagues with an overview of the behaviours we expect from individuals as representatives of M&G.
- Colleagues have also completed a refresher training course specific to Modern Slavery Awareness. Our Board and Senior Executives have also undertaken this training to demonstrate our commitment to combating modern slavery and human trafficking.
- We continue to refresh and update M&G contracts for modern slavery provisions.

We recognise our responsibility to comply with all relevant legislation included within the MSA. Our Modern Slavery Transparency Act Statement (to be published in May 2023), confirms how we comply with all relevant legislation and the steps we have taken to assess and mitigate against the risk of Modern Slavery and Human Rights violations within our business and supply chains, as well as how we have managed and will continue to proactively monitor those risks.

Adherence to policies

We have established a Group Governance Framework (GGF) which defines our approach to governance and internal controls to meet regulatory requirements. The GGF includes information and policies to ensure a consistent approach to how colleagues work and make decisions, below Board level. These policies provide general principles by which we conduct our business and ourselves, and as an asset owner and asset manager.

Our Non-Financial Reporting Statement covers the following policies and standards:

- Financial Crime Compliance Policies and Standards
- Statement of Human Rights
- Supply Chain Modern Slavery Business Standard

Some of these policies are recently implemented and will be reviewed during 2023 - others are embedded into our business.

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.

During 2023, we will continue to focus on embedding Modern Slavery risk management as part of our continuous improvement activities. This will include reviews of supplier onboarding, risk assessment and due diligence processes and controls, as well as our group-wide third-party oversight governance.

M&G has zero tolerance to bribery in our approach to doing business. Our financial crime compliance policies, business standards and resulting framework ensures that we comply with our obligations under applicable law, with adequate controls to ensure all Associated Persons (including colleagues) are acting with integrity. We also aim to embed the new Supply Chain Modern Slavery Business Standard and enhanced processes into our business. This will allow us to actively assess our position to these risks and how we mitigate them within our business and supply chain, supporting our commitment to working with our suppliers and stakeholders to help end slavery, human trafficking, child labour or any other abuse of human rights.

Our framework

Our risk management framework allows us to deliver for our clients and shareholders, while managing risk within agreed appetite levels

In 2022, Risk and Compliance were required to respond to a challenging external environment while continuing to build a more mature three lines of defence model underpinned by a stronger risk culture.

The external environment, driven by geopolitical events was a key area of focus during 2022. The Risk and Compliance teams supported the business in effectively responding to the impact of both the conflict in Ukraine and UK political instability. While recent market volatility has reduced there continues to be considerable economic uncertainty requiring us to remain focused on these risks.

Progress was made across the business during 2022 in building on risk and control framework foundations. Implementation work continues into 2023 to reach target maturity and we are focused on fully embedding the framework in order to do this.

Peter Grewal
Chief Risk and Compliance Officer

Risk framework

As part of our business, we take on risk on behalf of our shareholders and clients. We generate stakeholder value by selectively taking exposure to risks if they are adequately rewarded, and can be appropriately quantified and managed, safeguarding our ability to meet client commitments, comply with regulations and protect our reputation.

The Board has ultimate responsibility for these risks across M&G plc. To assist the Board in discharging its responsibilities, we have a comprehensive approach to identifying, measuring, managing, monitoring and reporting current and emerging risks (the Risk Management Cycle), supported by our embedded risk culture and strong risk governance.

This is set out in our Risk Management Framework, which 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 within M&G. Working together with our senior management, the Board promotes a responsible culture of risk management throughout M&G by emphasising and embedding the importance of balancing risk with profitability and growth in decision-making, while also ensuring compliance with regulatory requirements and internal policies.

Our approach to risk culture is centred around our business-wide 'I Am Managing Risk' programme, which requires colleagues to take personal responsibility and accountability for identifying, assessing, managing and reporting risk. They are also expected to work together to do the right thing for our clients, wider stakeholders and our business.

Whistleblowing

Our Whistleblowing policy includes details of the whistleblower protections we have in place across M&G plc, so that anyone who does speak out feels safe and confident in doing so.

This is supported by our Speak Out programme which includes different reporting channels, such as EthicsPoint, a confidential reporting system provided by an independent external service provider. This system is managed by the Speak Out team who report directly to the Chief Risk and Compliance Officer.

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

Meetings are held bi-annually with the Chair to share themes and outcomes. Onward dissemination to the Board is discussed and considered at these meetings to manage any potential conflicts of interest and to maintain confidentiality.

Governance

The Risk Committee supports the Board in governance activities by providing leadership, direction and oversight.

Our risk framework and 'three lines of defence' model

Board

Risk Committee

First line of defence	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 policies – Execute Business Plan and strategy – Establish and maintain controls – 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	– Independent assurance of first and second lines of defence – Independent thematic reviews – Risk and controls assessment

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

The Remuneration Committee ensures that our compensation structures place appropriate weight on colleagues adopting our risk culture and behaviours.

Our risk framework and system of internal risk control supports our Board, Risk and Audit Committees and is based on the 'three lines of defence' model.

First line business areas 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 risk oversight, advice and challenge, as well as compliance monitoring and assurance. Third line Internal Audit is empowered by the Audit Committee to audit the design and effectiveness of our internal controls, including the risk management system.

Risk appetite and limits

Risk appetite is the amount and type of risk we are willing to accept in pursuit of 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 that we should 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.

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

We use prescribed indicators to inform 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.

Navigating geopolitical and macroeconomic developments

2022 has been a challenging year for the global economy with persistent inflationary pressure, heightened recessionary fears, central bank tightening, rising geopolitical risk and UK political instability driving negative market sentiments. Recessionary fears in both European and US markets are expected to flow through into 2023 as economic stresses from rate increases and rising inflation mount.

Surging energy prices from the conflict in Ukraine, and supply chain disruptions driven by China's zero Covid policy, have adversely impacted markets. The conflict could pose a longer-term risk to market stability, with heightened tensions between US and China adding to geopolitical concerns.

Our response to developments related to the Ukraine conflict was coordinated by our Central Response Team, with monitoring groups of representatives across M&G. We have limited exposure to Russia and Ukraine, but our investment teams continue to monitor the geopolitical situation closely. We have liaised with our regulators (the PRA and FCA) and responded to information requests, for example in relation to our sanctions framework and cyber-attacks.

In the UK, political instability led to a spike in market volatility, requiring central bank intervention, a significant increase in borrowing costs and a weakening of Sterling. This has added to existing pressures on households and businesses.

To effectively manage our business and our clients' assets through this volatile period, we brought together colleagues from across M&G to provide an enhanced monitoring and decision-making capability. Actions we have taken include adjustments to risk limits and hedging portfolios to reduce the risk of unexpected collateral calls.

Effectiveness of risk management and internal controls

The Risk and Audit Committees have considered the outcomes of the annual assessment of risk management and internal control effectiveness for 2022. 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 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 during 2022 in building on the risk and control framework foundations previously put in place, but also acknowledges that implementation work continues into 2023 to reach target maturity. Management attention is therefore still required to fully embed the framework, including consistent performance of Key Control Assessments across the business.

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

"Our purpose is to help the company to make informed decisions, to meet its strategic objectives."

Peter Grewal
Chief Risk and Compliance Officer

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. **We operate in highly competitive markets, while our client needs and expectations are changing rapidly. Economic factors, including heightened levels of inflation, 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 key savings proposition, PruFund, accounts for a significant proportion of our inflows. We are also reliant on our intermediated channel for savings solutions sales. This heightens our exposure to changing economic conditions and client preferences.** **Our success depends upon our capacity to anticipate and respond to these external influences.**	Our annual strategic planning process is overseen by the Risk function and the Board, and results in our approved strategy. The process of strategy approval considers the potential impact of the wider business environment and economy. Throughout the year, we monitor and report on the delivery of this plan. The new M&G plc Group Chief Executive Officer commenced in role during 2022, with changes to M&G plc Executive Committee and the organisational structure made shortly thereafter. This included decentralisation and increased accountability for delivery of the Business Plan for the CEOs of the Retail and Savings and Asset Management business units.	Macroeconomic headwinds are expected to continue during 2023 including inflationary pressures, rising interest rates, UK political instability, heightened recessionary fears in Europe and US and geopolitical instability. These headwinds may have an impact on investment performance and strategy. The market continues to evolve with a convergence of asset management and wealth, and changes to the value chain. There continues to be competitive pressure on fees and an acceleration of pension de-risking. Prioritisation of investment and the successful delivery of initiatives is required to achieve our Business Plan.		Increased

Key

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

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, communication approach and our internal/external changing landscape could adversely impact on our financial performance, reputation and future growth. Consequently we recognise the risk and opportunity of sustainability in our business and the companies we invest in. **We consider and act upon a broad range of issues including those concerning greenwashing, climate impact, diversity and inclusion, and corporate governance.** **ESG Risk is considered in three broad dimensions: Inside out – how our business impacts on the planet and society, as we seek to create and drive value for our clients; Outside in – the impact of ESG factors on our organisation, ensuring that any "real time" response aligns to our positioning on ESG; Reputation – Our ability to meet a range of key stakeholder expectations on sustainability and ESG issues, whilst reinforcing our brand values of care and integrity.**	Recognising the complex range of risks that sit under ESG, we have developed a specific ESG risk management framework to further enhance our approach to the 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 articulates our ESG risk appetite and sets out key business requirements. The ESG risk management framework consists of five core components: ESG risk culture; identifying and assessing ESG risk; managing and reporting effectively on ESG risk; embedding risk governance; and protecting reputation. Consideration of ESG Risk is built into the decision-making processes and a requirement of key strategic board risk assessment papers and regular reporting. Climate change risk is integrated into our scenario analysis process with both top down and bottom up consideration over a range of time horizons.	The importance of robust ESG risk management and controls will continue to grow as the industry further develops its approach to ESG, addressing issues such as the quality of ESG data, greenwashing, enhancement of climate change methodologies and implementation of regulatory requirements. We anticipate the external ESG risk environment to continue to develop, with climate physical and transition risks accelerating, biodiversity emerging and social issues continuing to be important. As ESG approaches continue to mature, we expect enhanced scrutiny from various stakeholder groups, including clients, investors and regulators. Associated with increased scrutiny is the ability to manage greenwashing risk. Greenwashing has the potential for long-term impact upon reputational risk if expectations and deliverables are not met. Sustainability disclosures, driven by regulatory reporting requirements, will continue to improve transparency, consistency and comparability. We will implement enhancements to our reporting capabilities to meet developing reporting requirements.		Neutral

3 Investment risk

Principal risk	Management and mitigation	Outlook	Strategic priorities	Change from last year
We agree investment objectives and risk profiles of our funds and segregated mandates with our clients. **A failure to deliver against these 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 for expected redemptions may all lead to poor client outcomes and result in fund outflows.** **If these risks materialise for our larger 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 to the funds. Independent Investment Risk and Performance teams monitor and oversee fund performance, liquidity and 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.	Strong investment performance underpins the success of our business. Absolute performance was impacted by headwinds of rising interest rates, inflation and recessionary fears during 2022 with these set to continue in 2023. Sustainable strategies have also faced headwinds as they are underweight in energy and materials sectors which have performed well recently. Underperformance is expected to be recovered over the longer term as these trends are expected to be cyclical in nature.		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. **For invested assets, this relates to the risk of an issuer being unable to meet their obligations, while for trading or banking activities this relates to the risk that the counterparty to any contract the business enters into is unable to meet their obligations.** **Our solvency is also exposed to changes in the value of invested credit assets arising from credit spread widening, or credit rating downgrades.**	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, issuers and ratings, and monitor exposures against these limits. Our policy is to undertake transactions with counterparties and invest in instruments of high quality. We have collateral arrangements for derivatives, secured lending, reverse repurchase agreements and reinsurance transactions.	Our credit risk exposure is expected to reduce over time as our annuity business runs off. In the near term, threats to credit sectors arise from the deteriorating economic environment. We continue to monitor and review our credit risk exposures, including assessments of the impact (including any indirect/second order impacts) for the shareholder annuity fund of a potential downgrade of the UK government credit rating. However, trading over the last decade has led to a significant increase in the proportion of secured assets and a defensive and diversified credit portfolio.		Increased

Key

Maintain our financial strength
Simplify our business
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5 Market

Principal risk	Management and mitigation	Outlook	Strategic priorities	Change from last year
Our profitability and solvency are sensitive to market fluctuations. **Significant changes in the level or volatility of prices in equity, property or bond markets could have material adverse effects on our revenues and returns.** **Exchange rate movements could impact fee and investment income denominated in foreign currencies.** **Material falls in interest rates may increase the amount we need to set aside to meet our future obligations.**	Market risk appetite is set and monitored to limit our exposure to key market risks, and we have prescribed limits on the seed capital provided for new funds. 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 remain broadly level over the Business Plan period, primarily driven by PruFund new business sales offset by the run-off of existing in-force business. 2022 was a challenging year for most global equity and fixed income markets. Persistent inflationary pressures, recessionary fears across Europe, central bank tightening (through increase in interest rates and unwinding of quantitative easing) and rising geopolitical risk continue to drive negative market sentiment. Surging energy prices and supply chain disruptions driven by China's zero Covid policy continue to adversely impact markets, posing a longer-term risk to market stability, although gas prices have started to reduce in late 2022/ early 2023 and China has relaxed some Covid restrictions.		Neutral

6 Corporate liquidity

Principal risk	Management and mitigation	Outlook	Strategic priorities	Change from last year
We must carefully manage the risk that we have insufficient cash resources to meet our obligations to policyholders and creditors as they fall due. This includes ensuring each part of our business and M&G plc as a whole has sufficient resources to cover outgoing cash flows, under a range of severe but plausible scenarios.	Risk appetite is set such that we maintain adequate liquid resources and our liquidity position is regularly monitored and stressed. We have detailed liquidity contingency funding plans in place to manage a liquidity crisis. Liquidity, cash and collateral is managed for the Group by Prudential Capital, which holds liquid, high grade assets and has access to external funding.	We expect the nature of our exposure to liquidity risk to remain materially unchanged in the short term. We maintain strong liquidity buffers and continue to investigate options and management actions to further strengthen the liquidity position.		Neutral

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. **We make assumptions regarding the life expectancy (longevity) of our clients when determining the amount that should be set aside to pay future benefits and expenses. Unexpected changes in the life expectancy of our clients could have a material adverse impact on both profitability and solvency. This risk mainly arises from our large annuity book and, although we currently do not write new annuity business in the open market, the size of the back-book remains significant.**	We conduct annual reviews of longevity assumptions, supported by detailed assessments of actual mortality experience and have a team of specialists undertaking longevity research. We perform regular stress and scenario testing to understand the size of insurance risk exposures. We have undertaken longevity risk transfer transactions, where attractive financial terms are available from suitable market participants.	Our exposure to insurance risk is expected to reduce over the near term mainly driven by a projected reduction in longevity risk, as the closed non-profit annuity book runs-off. Expense risk is also projected to reduce, driven by the run-off of the non-profit annuity business partially offset by increases in PruFund new business.		Neutral

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, that of our third-party suppliers or of our technology could result in poor client outcomes, reputational damage, increased costs and regulatory censure. **We are highly dependent on technology and the loss or sustained unavailability of key hardware or software, inadequate information security arrangements and ineffective use of digital solutions could impact our ability to operate effectively.** **Additionally, serious failings in the delivery, or persistent under performance of third-party supplier arrangements, could impact the delivery of services to our clients.**	Our Operational Risk Policy defines our approach to identifying, assessing, managing and reporting operational risks and associated controls across the business - including IT, data and outsourcing arrangements. We apply business continuity and crisis management requirements across M&G. Our key business services and the critical shared services on which they rely need an enhanced approach to avoid causing intolerable harm. We achieve this through our risk-based approach, which considers the harm a service could cause if disrupted. We created our Technology Key Control framework in line with recognised best practice, including the Information Security Forums Standard of Good Practice and Control Objectives for Information and Related Technologies Governance and Management Objectives. We have enhanced oversight and risk management of third parties across M&G, including our approach to selection, contracting and onboarding, management and monitoring, and termination and exiting.	Positive progress was made across the business during 2022 in building on the risk and control framework foundations previously put in place. We are focused on fully embedding the framework and reaching operational maturity. The increased cyber-security threat arising from geopolitical tensions and the continually evolving external cyber-threat landscape, technological disruption and data loss remains a significant threat both to our business and that of our third party suppliers. Our sustainable secure programme continues to improve the control environment by delivering additional security capabilities.		Neutral

9 Change

Principal risk	Management and mitigation	Outlook	Strategic priorities	Change from last year
We have a number of significant change programmes underway to deliver our strategy for growth, key financial and non-financial benefits (including cost savings, improved client experiences, greater resilience and strengthening our control environment) and regulatory change. Failure to deliver these programmes within timelines, scope and cost with our available people and skill-set capacity may impact our business model and ability to deliver against our Business Plan and strategy.	Project governance is in place (including oversight) with reporting and escalation of risks to management and the Board. Our Efficiency Board is responsible for prioritisation decisions, ensuring that the activities that maximise our ability to achieve the Business Plan, key regulatory items and growth activity are delivered and funded appropriately. We employ a suite of metrics to monitor and report on the delivery, costs and benefits of our transformation programmes. We conduct regular deep-dive assessments of transformation programmes, individually and collectively.	Our strategy and the business plan is underpinned by a number of change activities which are expected to drive fund flows and efficiencies. As we simplify the way we operate, our change activities will strengthen critical capabilities to streamline how we serve our clients. Careful prioritisation of investment spend and delivery within expected timescales is required to achieve our Business Plan outcomes.		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 professional people with the right mix of skills and behaviours, to support our positive culture and growth. **As a large and listed public company, and as we continue to re-focus our strategy, our people risk and associated reputational impact is heightened in areas including our pay practices, workloads and morale, the conduct of colleagues or groups of colleagues, and industrial relations (our own and that of key third-party providers).**	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 colleague issues and developments, for example: succession plans for critical talent; management of industrial relations; pay; culture and diversity. We conduct regular surveys to better understand our colleagues' views on our business and culture. Findings from these surveys drive actions that improve our colleagues' experience.	We remain focused on culture and work on our culture programme continues with our core foundations of having a safe and respectful organisation. Colleague responses to our regular surveys reflected their belief that people are treated with respect and dignity in our organisation, and that they feel it is safe to speak their mind. Our surveys have also highlighted some uncertainty amongst colleagues, this being predominantly driven by the cost of living crisis. Our 2023 annual salary review focused on giving a greater percentage increase to staff at the lower end of the salary scale and a cost of living support payment was also made to UK Colleagues during 2022 with a commitment for a further payment to be made in 2023.		Neutral

Key

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11 Regulatory compliance

Principal risk	Management and mitigation	Outlook	Strategic priorities	Change from last year
We operate in highly regulated markets and interact with regulators across the globe, in an environment where the nature and focus of regulation and laws remain fluid. **There are a large number of national and international regulatory initiatives in progress, with a focus on solvency and capital standards, financial crime, conduct of business and systemic risks.** **There are wide-ranging consequences of non-compliance or failing to adequately consider regulatory expectations, standards or principles, 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 Compliance function supports our businesses by providing guidance to, and oversight of, the business in relation to regulatory compliance, Financial Crime Compliance and conflicts of interest, and carries out routine monitoring and deep-dive activities to assess compliance with regulations and legislation. National and global regulatory developments are monitored and form part of our engagement with government policy teams and regulators, which includes updates on our responses to the changes.	In December 2022, the Chancellor of the Exchequer announced a set of reforms to drive growth and competitiveness in the financial services sector. These 'Edinburgh Reforms' will increase the volume and pace of regulatory change that will be introduced in the coming years and are also likely to accelerate the UK's regulatory divergence from the EU. Aligned to our strategic objectives, ESG and international expansion will also be key areas of focus. We have activities underway addressing these priorities and are engaged with our regulators on delivery in line with their expectations.		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 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. They also support our businesses by creating processes that include full consideration of reputational risks in key decisions.	We have a relatively new corporate identity, with a newly appointed Group Chief Executive Officer and so we are subject to significant scrutiny from different stakeholders. Key to managing evolving stakeholder expectations is the need to address the material aspects of sustainability risk, in addition to our current sustainability priorities – climate change and diversity and inclusion.		Neutral

Key

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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 the firm, or individuals within the firm, we deliver poor or unfair 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 our Code of Conduct and our Conflict of Interest, Market Abuse and Investment Communications Recording policies. Our Asset Management business has launched a Conduct Management Framework to provide a consistent process for conduct management in relation to these policies and our Retail and Savings business is undertaking a Consumer Duty programme.	The FCA Consumer Duty regime which will come into effect on 31 July 2023 (for new and existing products and services) requires firms to deliver good client outcomes with focus on four areas (products and services, price and value, consumer understanding and consumer support) and to consider the needs, characteristics and objectives of clients at every stage of the customer journey.		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.

Risk Theme	Description
Political	Increasing trade tensions and conflicts between the world's major trading blocs could lead to increased trade barriers, regulatory fragmentation and the reversal of globalisation.
Economic	Post-pandemic market developments, high inflation and recessionary fears, as well as potential monetary and fiscal policy response, drives continued uncertainty and market volatility. The cost of living crisis in many advanced economies also poses a variety of risks.
Sociological	Socially, COVID-19 and high inflation have exposed inequalities around income, gender, education and ethnicity. This widening inequality gap is likely to fuel demands in social changes, creating a range of risks. In addition, risks continue to emerge in relation to skills shortage and talent, as well as around mental health.
Technological	The progress in artificial intelligence and cognitive computing may result in unforeseen risks or unpredictable outcomes. Keeping pace and managing obsolescence in the face of rapid change creates strategic, financial and operational risks. The increased use of technology also heightens evolving cyber risks.
Legal	The outlook for regulatory and legislative change (including in relation to ESG) remains high, which could lead to potential compliance challenges and increasing regulatory complexity.
Environmental	The longer-term impacts on the environment, from a range of factors including climate change, loss of biodiversity and ecosystem collapse, are uncertain. Along with associated government action, this gives rise to a range of risks.

Our approach to climate change

Focusing on stewardship and real-world action, to support the transition to a net zero world

Introduction

Climate change is a global problem characterised by huge complexity, uncertain timing and economy-wide impacts. The scientific community has given us a clear idea of the many interconnected effects of a warming planet, with extreme events already affecting lives and livelihoods across the world. Adding to the urgency, there are signs that we are moving closer to planetary tipping points – thresholds beyond which change could become irreversible.

While it is widely recognised that there has been progress on many fronts, not least when it comes to renewable energy, decarbonisation is not happening at the scale and pace needed to keep the global temperature rise within 1.5°C. Moving from commitments and incremental change to transformational action will require greater action across the global economy and much stronger policy and regulatory signals from governments.

The transition to carbon net zero is about reshaping the whole economy to operate within planetary boundaries. At M&G we want to help advance private and public action, playing our part by using the levers we have to drive positive real-world change. This includes communicating clear transition expectations to investees and stakeholders, as well as financing and enabling solutions, to support our clients on their climate journey. Our focus is on implementation, collaboration and advocacy, while constantly asking ourselves if we are doing enough.

Objectives

- To reach net zero emissions by 2050 at the latest, following Paris-aligned decarbonisation pathways for both our investments and operations.
- Contributing to real-world positive impact by scaling investment in climate solutions.
- Supporting a just transition and advocating for economy-wide change.

Priorities

- Embedding our Net Zero Investment Framework (NZIF) across the business.
- Progressing our climate stewardship activities, with a focus on our Hot 100 and thermal coal-related investments (where a large proportion of our transition-related risk is concentrated).
- Identifying climate solutions and just transition opportunities, including in private assets where we can directly finance innovation and help scale green technologies.
- Increasing assets in scope of our interim climate commitments.
- Strengthening our data and scenario analysis capabilities, with a focus on transition-relevant information.
- Engaging with our supply chain to encourage ambitious transition plans and reduce our indirect operational emissions.

Developments

At our 2022 AGM, we held our first 'Say on Climate' vote, giving shareholders an opportunity to voice their views on our transition plan. A majority expressed support, but we also received some constructive feedback, which we are taking into consideration as we further develop our plan. Taking this feedback into account, in November 2022, we published an update setting out key ESG achievements since the AGM.

In April 2022, our Asset Manager Thermal Coal Investment Policy came into effect, defining our engagement and divestment approach for covered assets, to ensure phase-out of this major source of global emissions (2030 in OECD and EU countries and 2040 for the rest of the world).

In September 2022, our asset owner published its first interim targets as a member of the Net-Zero Asset Owner Alliance (NZAOA), including asset level, sectoral and engagement commitments (these targets are detailed on page 79). Our asset manager also issued its first progress report as part of the Net Zero Asset Managers initiative (NZAMi). Assets in-scope of our interim climate targets have increased, reflecting asset owner and asset manager alignment.

Our acquisition of impact specialist responsAbility gives us significant capability to support real-world climate action in emerging markets, including blended finance. Combined with our Catalyst investment strategy, which focuses on early-stage private investments, we are well positioned to meet growing client demand for impact investing and to help finance mitigation and adaptation activities across the world.

Climate strategy and governance

Strategy

Our overarching climate strategy is to use the climate transition levers available to us to drive real-world decarbonisation and support the transition to a net zero economy. This in turn will allow us to manage our transition risk as a business, generating profitable growth in the future, in line with our purpose.

From an investment perspective, we can influence decarbonisation through two principal channels: investment strategies (making changes to our investment portfolios and supporting climate solutions) and stewardship (engaging issuers to implement ambitious transition plans).

We recognise the importance of directly financing and enabling climate mitigation and adaptation, particularly where capital is scarce, and are building on our existing capabilities to address this.

Divestment does not translate directly into real-world emissions reductions, and our preference is to encourage change through engagement and voting. Net zero is an economy-wide goal, and we therefore emphasise advocacy and broad change, collaborating with peers and promoting ambitious climate policy and regulation.

While our operational climate impact is smaller than our financed emissions, tackling this is an integral part of our journey to becoming a net zero business. We aim to drive down direct and indirect emissions on a Paris-aligned timeline.

Our climate transition plan sets out how we are addressing the risks and opportunities of the transition as a business and investors, and is available on our website.

Board and management

The Board is ultimately responsible for setting M&G's sustainability strategy, including climate change. The Board and its sub-committees consider climate-related risks, opportunities and other issues.

In 2022, key discussion points included consideration of the risks of greenwashing, as well as implementing the Central Sustainability Office.

The Board is responsible for approving the Business Plan annually. Where we have a reasonable estimate of the income and expenditure related to our climate actions, and these are expected to materialise within the plan period (three years), we capture it in our business planning process: for example, the costs required to deliver on our sustainability and climate-related opportunities and obligations.

Our Chief Financial Officer is the executive responsible for sustainability strategy, policy, commitments and our governance model.

The Chief Financial Officer chairs the Executive Sustainability Committee, which is responsible for supporting the Board in discharging its responsibility for setting the Group's ESG strategy.

Find out more on sustainability governance on page 36

Risk oversight

The Risk Committee is responsible for our assessment of sustainability, including climate risk. The Risk Committee is chaired by a Non-Executive Director, to maintain independence.

There were eight Risk Committee meetings in 2022, including two joint meetings with the Audit Committee.

Regular risk and compliance reporting is provided to both the M&G Risk Committee and M&G Executive Risk Committee. The Chief Risk and Compliance Officer sets out reports on key issues, events and incidents, as well as a risk assessment of our key risks against our risk appetite. This includes consideration of climate-related risks.

We continue to implement and integrate our bespoke ESG Risk Management framework across the business. At the corporate level, this means including climate change in risk assessments for key strategic decisions, and helping to guide investment and resources.

As part of the framework integration process, we have established a ESG Risk Governance structure, which includes three discrete risk management working groups that focus on environment (including climate change), social and governance risk issues.

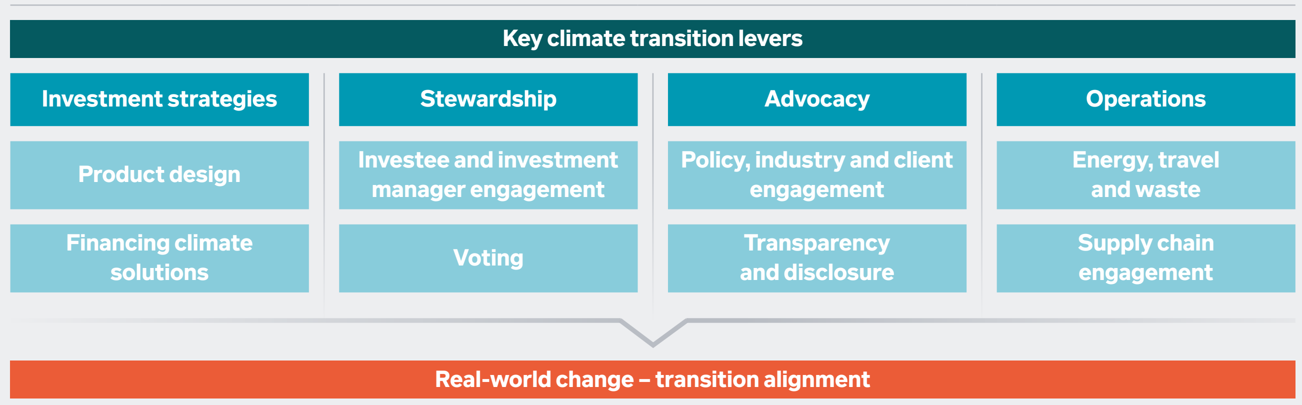
Find out more on ESG risk management on page 61

Reporting

We value the importance of clear and decision-useful climate disclosures, to enable all stakeholders to assess our strategy and progress. Over 2022 we have continued to invest in our sustainability reporting capabilities.

The Audit Committee is responsible for oversight and development of assurance around ESG reporting, including climate disclosures. Our plan for external ESG reporting in 2023 was approved by the Audit Committee at the end of 2022.

Net zero transition



Strategic Report
Governance
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Other information

Climate risks and opportunities

Climate risk overview

The identification, assessment and management of climate-related risks, along with other ESG-related risks, is integrated into the M&G ESG Risk Management framework. As climate change is a critical aspect of sustainability and ESG, a principal risk for M&G, it is a key area of oversight for our Risk and Compliance teams. Consideration and prioritisation of climate risk is also built into decision-making and governance processes, and is a requirement of key strategic Board risk assessment papers.

Scenario analysis is an important tool in the identification, assessment and management of climate change risk. We have continued developing our in-house climate risk modelling capability, and this is a priority for further improvement. The results of this modelling are on pages 84-87.

Climate risk identification

We combine a range of approaches to help us identify, understand and articulate climate risk, including academic research, industry-shared learning, scanning tools and relevant data sources, scenario analysis and best practice guides.

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 through three different climate scenarios. The scenarios, which use the Network for Greening the Financial System (NGFS) phase 2 scenarios as a base, have been assessed over short- and longer-term time horizons, covering both an orderly and disorderly transition to a low-carbon economy, and a 'Hot House' scenario where the transition is limited and physical risks dominate.

The results of our 2022 modelling indicate a modest impact over a short-term horizon, but further out – particularly in the disorderly and Hot House scenarios – the uncertainty and potential balance sheet effects become more pronounced.

In addition to the overall balance sheet modelling conducted as part of the ORSA, we have also undertaken more granular, asset-by-asset climate modelling to support integration across our investment teams. Find out more on pages 85-87.

In 2022, we continued to invest in and develop new capabilities in climate analytics, drawing on expertise across our business (including technology, investment and risk professionals). For 2023, we plan to further integrate these new capabilities into our decision-making and risk oversight processes.

Transition and physical risks

We approach climate risks through multiple lenses, considering both the potential effects on us as a business and the degree to which we, directly and indirectly, are generating impacts. We believe a failure to align with the climate transition poses significant business risk, principally through the investments we manage on behalf of clients, but also from operational and reputational perspectives. The acquisition of M&G Southern Africa has increased our overall investment exposure to carbon-intensive issuers, but is an opportunity for us to support a just transition in this region.

Given how far the world is from meeting the Paris Agreement temperature goals, there is increasing risk of a disorderly transition outcome, where policy intervention and repricing of assets happens abruptly rather than in an orderly fashion. Our climate risk analysis is therefore heavily focused on transition-relevant metrics and information, helping us assess the degree of alignment with rapid, science-based decarbonisation.

From a physical risk perspective, impacts will continue to worsen due to historical emissions and the world's current decarbonisation trajectory, making investment in adaptation and resilience critical. The ability to assess vulnerability and exposure to acute physical risk and extreme weather is improving, but long-term chronic physical risk could manifest in complex and less obvious ways: for example, food and water insecurity driving mass movement of people; increased conflict and inflationary pressures; or changing disease patterns, including exposure to novel viruses.

We are aware that traditional risk management techniques, such as diversification, are likely to be less effective in a worst-case runaway temperature scenario where the wider economy is impacted. We therefore recognise the importance of collaboration and policy change to drive ambitious decarbonisation as well as adaptation.

Climate risk as a business

As a business, we are impacted by both the physical and transition risks of climate change. We are exposed to physical and transition risks in our operations and through our supply chain, both of which could have an impact on our costs. Our Workplace Solutions team actively monitor our operational footprint, mitigating against the risks arising.

We are also aware of reputational risk to our business, such as not meeting our targets or overstating our work. Additionally, we need to ensure we are holding ourselves to account, and to be an example to others.

Climate risk as an asset owner

As an asset owner, we use several methods to identify where investments are exposed to climate risk, including scenario analysis. We model our portfolio exposures and how they behave under different climate scenarios, and will extend this capability across our strategies, with regular updates. This will help us identify climate-related risks and how they are likely to impact investments, as well as track how individual exposures change over time.

Scenario modelling does not capture all climate-related risks and relies on many assumptions. We therefore also consider various connected ESG issues, and their impact on climate change. We contextualise the findings in our investment strategy at a portfolio level to determine the best approach to address these with asset managers.

Climate risk as an asset manager

As an asset manager we use a range of information, including portfolio alignment data and scenario modelling, to identify exposure to climate risk across our clients' portfolios (see page 85).

Key tools used to identify and assess risks include our Portfolio Analytics Tool (PAT) and Coal Tool, which provide a quantitative assessment of investees' exposure to climate risks and opportunities. Our ESG scorecard also acknowledges the qualitative nature of many environmental and social considerations. Our analysis feeds into our climate stewardship efforts, which is the main way we seek to reduce exposure to transition and physical risks.

For private investments, we have expanded our scenario analysis to quantify the financial impacts from physical risks on infrastructure assets, in addition to our already modelled real estate portfolios.

Overview

We take a holistic view of climate transition and physical risks across a range of timeframes (short term : <3 years; medium term: 3-10 years; long term: 10+ years). The main categories of these risks are illustrated in the table below and are applicable across our different legal entities and business areas.

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 (e.g. 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 (e.g. 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 (e.g. from greenwashing, or failure to meet climate commitments or regulatory requirements)	Increased frequency and severity of extreme weather (e.g. storms, wild fires and heatwaves)	Longer-term shifts in climate patterns (e.g. sea level rise and changes in precipitation patterns) and associated impacts on food and water security, human health and geopolitical risk
Risk level	Short term (0-3 years)	M	M	M	M	M	L
	Medium term (3-10 years)	H	H	H	H	H	M
	Long term (>10 years)	H	H	H	H	H	H
Investment impacts		Asset values and investment flows (AUMA)				Asset values and investment flows (AUMA)	
Corporate impacts		M&G's revenue, costs, balance sheet and ability to attract and retain employees	M&G's revenue, costs and balance sheet	M&G's revenue, costs, balance sheet and ability to attract and retain employees	M&G's revenue, costs, balance sheet and ability to retain and attract employees	Damage and disruption to assets and operations, with impacts on M&G's revenue, costs and balance sheet	Damage and disruption to assets and operations, with impacts on M&G's revenue, costs and balance sheet
Monitoring and management		ESG Risk Management Framework; NZIF; Scenario analysis; Thermal Coal Investment Policy; Climate stewardship programme; Environmental Policy; Supplier due diligence and engagement					

H High M Medium L Low (Perceived inherent risk levels, based on a quantitative and qualitative assessment)

Monitoring and management

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 84-87), which directly influences our revenue and assets held on our balance sheet. We understand that climate-related risks can overlap and interact, creating compound and cascading impacts, and that the precise timing and sequence is very hard to predict. However, the likelihood and potential impact of the risks in the above table are rising. 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 NZIF, which in turn inform our climate stewardship engagement efforts 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. Physical risk is more prominent for some of the asset classes we manage, such as real estate and infrastructure, and involve location-specific assessments of existing and new assets. Operationally, we are managing both direct and indirect transition risks, for example through our renewable energy procurement and active engagement with our supply chain. Taken together, the above efforts are also about protecting our reputation, as stakeholders increasingly differentiate between climate leaders and laggards.

Opportunities

Aligning our investments and operations with the transition also means identifying opportunities. Decarbonisation is a long-term growth theme that is ultimately driven by necessity. To meet the world's remaining 1.5°C carbon budget, climate action has to accelerate and decouple from swings in the economy. The global energy transition alone requires a huge scaling up of investment (around $4 trillion annually by 2030 according to the International Energy Agency).

Opportunity for M&G lies partly at a product level: offering investment strategies that meet clients' evolving sustainability needs and preferences. Greater capital allocation across asset classes and strategies to climate solutions is another significant opportunity. Through private assets, we can directly help finance and enable mitigation and adaptation solutions. For public assets, our emphasis is on stewardship and alignment with positive climate outcomes. We aim to lead by example, by creating a climate-aware culture, and building long-term resilience to transition and physical impacts.

Climate opportunities

	Opportunities **Investment strategy**		**Operational transition**
	Product design	**Climate solutions**	**Direct operations and supply chain**
Description	Meeting growing client demand for sustainable and climate-focused investment strategies, both in public and private markets. Engaging with advisors and aligning wider M&G products with a just climate transition.	Allocating capital to climate solutions (both mitigation and adaptation), such as renewable energy, clean transport, sustainable buildings, infrastructure and regenerative agriculture.	Decarbonising operations, both direct and supply chain emissions, strengthening adaptation and resilience, and creating a climate-aware culture.
Investment impacts	Reducing portfolio transition risk and associated financial impacts Asset values and investment flows (AUMA)		Indirect impact, including improved climate expertise and investment decisions within the organisation
Corporate impacts	Increased revenues (exposure to structural growth trend) and retention and attraction of clients		Lower/stable costs, improved business and supply chain resilience, and strengthened recruitment (employee retention and attraction)
Examples	– Planet+ range – PruFund planet range – Catalyst climate investments – responsAbility climate investments – Real estate (low-carbon buildings) – Infracapital climate investments – Conversion of SICAV funds to article 8/9		– Operational net zero implementation (renewable energy, transport and waste) – Supplier Climate Engagement programme

Climate transition alignment and profitable growth

As a joint asset manager and asset owner with significant capabilities across both public and private markets, we are in a strong position to identify climate-related opportunities and directly support the deployment of solutions that help the world mitigate and adapt. We believe this is key to future-proofing M&G and driving profitable growth, and examples of how we continue to develop solutions to address this opportunity are covered on page 73.

The net zero transition is not solely product-specific – it has to happen across our investment strategies, although the pace of change will be different between sectors and countries. Indeed, the UK has some of the most ambitious decarbonisation targets in the world, and we want to play our part to help the government execute against these.

Operationally, we are making strides to reduce both our direct and indirect carbon emissions, with our new energy-efficient office in Kildean bringing a material reduction in our climate impact. Find out more about how we plan to maximise the opportunities to decarbonise our direct operations and supply chain on pages 74-75.

Deliver outcomes

Investing in cleaner transport

In August 2022, Infracapital - our infrastructure investment business, invested in Gridserve, one of the UK's largest electric vehicle charge point operators. What makes Gridserve different is its 'sun-to-wheel' concept: its rapid chargers are partially powered by renewable energy from its solar farms. Just one acre of solar panels in England can generate enough energy for one million miles of EV driving each year.

Developing our investment strategies and solutions

One of our strategic priorities is to focus on our strengths in fixed income and private assets, as private markets are well positioned to contribute significantly to the solutions and management of risks. This is why we have continued to broaden our offering in these areas.

In particular, we believe that there is an opportunity for us to expand our product range in real estate and private credit to better meet changes in client demand (find out more on market and industry trends on pages 8-9), including growing interest in impact-oriented strategies.

Over 2022, we continued to expand our capabilities, and further develop solutions that allow our clients to invest in impact-focused strategies.

In May 2022, we completed the acquisition of responsAbility, whose expertise in private assets and impact investing across emerging markets complements and enhances our existing capabilities in an area of the market with strong and growing client demand.

Following the acquisition, in December 2022 M&G Investments committed £200m to two new investment strategies in Asia and Latin America, which seek to improve the production and availability of healthy food worldwide, as well as build resilience to climate change.

Within M&G Investment's Private Assets team, new investment strategies and impact funds are being developed. In June 2022, we launched the Real Assets Impact Fund. The fund uses a proprietary impact framework to identify investment opportunities that aims to deliver measurable impact against climate and societal outcomes.

Our public asset Planet+ range now spans 38 funds, including strategies focused on climate solutions and alignment with the Paris Agreement.

The proportion of funds 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 increased to 54% at the end of 2022, up from 30% at the end of 2021.

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 the same smoothed returns and risk profile as PruFund, with additional positive environmental and societal outcomes from their investment. We continue to receive inflows into PruFund Planet, and it forms the core of our asset owner sustainable product development strategy.

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. The strategic asset allocation process is similar to that used for other propositions in the PruFund product range, and spans across a broad range of asset classes, both public and private. Where PruFund Planet differs from other PruFund propositions is that its mandates are designed, and investment managers selected, such that they focus on environmental and social outcomes, in addition to financial ones.

The asset owner is a cornerstone investor in M&G's Catalyst investment strategy, which 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.

The With-Profits Fund committed a total of around £5 billion across Catalyst's equity and debt funds, and originally seeded Catalyst in January 2021, with capital being drawn as opportunities are identified.

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.

Climate change and our operations

We recognise that all of our corporate activities have a climate impact, and therefore need to be considered in our operational decision-making.

Our corporate operations sustainability strategy addresses this across three key themes:

- Our Places: reducing our emissions from our offices and travel.
- Our People: engaging our colleagues so they understand how they can support a reduction in emissions.
- Our Partnerships: working with our suppliers and service providers to reduce our indirect emissions.

Implementation strategy

The carbon emissions from our corporate operations is relatively small compared with our investment portfolio, but we actively seek to minimise emissions where we have direct control. To be confident that our actions are in line with climate science, we have reviewed our targets against current industry guidance, and while our ambitions are aligned to industry practice, we will evolve how we discuss our current commitments.

For our corporate operations, we have set ourselves near-term operational carbon reduction targets, aligned with the Paris Agreement. These include:

- reducing Scope 1 & 2 (market-based) carbon emissions from our direct operations by 46% by 2030 from a 2019 baseline;
- reducing Scope 3 business travel carbon emissions by 46% by 2030; and
- engaging with suppliers to encourage them to set ambitious 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.

For our corporate operations footprint, we report on our defined Scope 1 & 2, and selected Scope 3 emissions and obtain third-party assurance on these emissions (find out more on page 76). Details on our financed emissions (Scope 3, category 15) are on pages 82-83.

Beyond 2030, we will continue to reduce emissions from our corporate operations to align with our 2050 target. We have also committed to purchasing 100% renewable electricity across our operational estate by 2025.

Our approach to offsets

The use of carbon credits or offsets is not a substitute for reducing our emissions, and while we have purchased offsets in 2022 for selected Scope 3 emissions, we remain committed to continuing our efforts to reduce our environmental and carbon emissions footprint from corporate operations.

The use of offsets is currently part of our transition process to achieve net zero corporate emissions, and we intend to do so through supporting high-quality offset projects, which can be valuable to help tackle climate change, protect biodiversity, support local communities and act as carbon sinks.

We have established offsetting principles to support selection and manage risk regarding the purchase of carbon credits. All our credits are also third-party verified by Verra. These principles are aligned with the Oxford Principles for Net Zero Aligned Carbon Offsetting and consider the source (accreditations, vintage and leakage), category (avoidance, reduction or storage), type (nature or technology based) and associated co-benefits or unintended consequences of projects.

We continue to assess the offsetting market and emerging guidance to further develop our future purchase of offsets. In 2022, we have worked with a consultant to buy offsets that support a forest restoration project, assured to Verra's Verified Carbon Standard (VCS), which is a nature-based, short-term carbon removal project.

Engagement strategy

Supply chain

The goods and services we procure are a material source of Scope 3 corporate operational emissions, and were estimated to account for 90% of our 2019 total corporate baseline emissions. In 2022, we contacted more than 1,000 of our suppliers, buildings on our work in 2021 to further understand and assess our supply chain emissions.

Through this project we have reduced our calculated supply chain emissions by 42% by improving data quality and obtaining actual supplier emissions data, for a sampled reporting period. Of our revised 2021 supply chain emissions it was found that 20% of our emissions were covered by organisations that have set, or have committed to set, validated science-based targets.

During 2022, we also introduced a preferred supplier list, which will begin to incorporate minimum sustainability standards and disclosures.

Our existing Supplier Code of Conduct (available on our website) requires all suppliers to have clear procedures in place to ensure direct and indirect environmental impacts associated with goods and services are understood, measured and managed, and that supply chain decisions involving a market assessment include environmental factors as part of the decision-making criteria. The Supplier Code of Conduct also includes conditions around social factors such as wages and working hours.

Deliver outcomes

Kildean

In 2022, we moved into new offices at the Kildean Business Park in Stirling, which replaces our Craigforth site. Our new office has been designed to high sustainability standards and is currently being assessed by BREEAM. The building is fully electric (supplied by REGO backed renewable energy) and is significantly more energy-efficient than our Craigforth office. The office also provides on-site free electrical vehicle charging points for colleagues. Enhanced biodiversity of the site and habitat development is being achieved through extensive meadow areas and a range of planting, supporting pollinating species. In decommissioning Craigforth we have donated furniture, gardening equipment, stationery and other items to more than 20 local charities, schools and community organisations.

Colleagues

We support our colleagues to make sustainable choices in our offices by providing lower-carbon commute opportunities, such as providing secure cycle storage, shower rooms, drying cupboards and the cycle-to-work scheme for UK colleagues. Where we have on-site restaurants, our caterers provide seasonal and locally sourced meal options and partner with suppliers that focus on reducing food waste.

Training on sustainability is available to all colleagues via our learning and development pages and on the Sustainability Hub on our intranet. During 2022, as we returned to offices, we hosted local events to raise awareness around sustainability opportunities, including an active commute day at our new office in Kildean, working with the local council to promote the improved active commute corridors available in the area.

Operational performance

Progress against targets

In 2022, reported Scope 1 & 2 (market-based) emissions from our operations were 1,526tCO_2e; this is a decrease of 19% over 2021 and reduction of 62% from 2019. Emissions from Scope 3 business travel for the year were 2,903tCO_2e; this is an increase of 2,630tCO_2e from 2021, but a reduction of 68% from 2019.

Overall, across our reported Scope 1, 2 (market-based) and 3 emissions in 2022, we have seen an increase of 2,587tCO_2e over 2021 as a result of COVID-19 restrictions being lifted, but a reduction of 64% over the 2019 baseline.

Buildings

Scope 1 & 2 emissions from our offices have decreased year-on-year by 25% (2022: 1,350tCO_2e, 2021: 1,797tCO_2e). In 2022, Scope 1 natural gas emissions reduced by 21%; this reduction is linked to the exit and relocation from our legacy Craigforth office to our new Kildean site during the summer, which has removed our natural gas consumption for our operations in Stirling. In 2022, there has been a 8% reduction in energy consumption from 2021. Savings have been achieved through reductions in our office footprint as we have adjusted to the needs of the business as we adopt hybrid working practices. In addition, we have undertaken work to improve the energy efficiency of our buildings. For example, at our Mumbai office we upgraded lighting throughout the office and key IT infrastructure; and at our head office in London we have updated the lighting schedule to make better use of external light conditions during the day.

Building environmental management

We operate an environmental management system (EMS) certified to ISO 14001 across much of our UK estate. In 2022, we extended the scope of the certification to include our offices in Edinburgh and Bath. In early 2023, we intend to formally incorporate our new Stirling office into the scope of certification. Our other office locations - while not in the formal scope of the certification - align with the principles of our EMS through following the requirements of our Environment Policy.

As part of our location strategy, we review the sustainability of our offices on an ongoing basis and during the leasing process. In 2022, we actively discussed environmental requirements during lease negotiations, including energy tariff type and provision of environmental data.

Waste and water management

In 2022, waste generation from our offices increased year-on-year (where waste data is available) (2022: 409tCO_2e, 318 tonnes, 2021: 92tCO_2e, 142 tonnes) and our UK operational recycling rate for 2022 was 67% (2021: 66%). The changes in reported waste emissions and volumes are attributed to an increase in offices reporting on waste (12 in 2022 up from 7 in 2021), colleagues returning to the offices and additional waste arising from office moves in Scotland.

We have continued our current zero waste to landfill commitment for our UK offices where we have operational control, and promote this as best practice for all other offices. As a result of portfolio changes in 2022 to our UK estate we diverted surplus items (stationery, furniture, merchandise and left items from colleagues) from disposal by donating items to local schools, charities and community organisations.

Reported water consumption in 2022 was 27,709m^3 (4tCO_2e); this includes data from 25 offices in 2022. This is an emissions increase of 47% on 2021, with increased water consumption linked to higher office occupancy and use by colleagues. We continue to work with our offices internationally to improve reporting of this metric.

Renewable energy

As part of our ongoing commitment to reduce our Scope 2 emissions as members of RE100 - a global corporate renewable energy initiative - we continue to source renewable electricity across our operational estate. We purchase renewable energy from energy providers in all of our UK offices where we have operational control. During 2022, several international offices transitioned to renewable energy tariffs, including our office in India and two offices in Poland.

In 2022, 99% (98% in 2021) of our electricity use was provided by renewable energy (0.4% on-site generation via photovoltaic panels, 77.2% via direct energy contracts, and 21.4% via energy attribute certificates (EACs)).

Travel

As anticipated, following the lifting of COVID-19 travel restrictions, reported travel emissions (road, rail and air) increased in 2022 to 3,079tCO_2e, (2021: 362tCO_2e), though this is a 69% reduction from 2019.

In 2022, we launched a new Global Travel Policy which promotes the use of virtual collaboration and sustainable modes of travel, as part of our commitment to reduce our carbon impact, while still recognising that there are occasions where travel for business purposes is required.

We communicate carbon impact data at the point of booking when colleagues use our central travel booking system. We've increased the geographical scope of our central travel booker to cover additional regions, which will provide more accurate reporting and may result in an increase in reported travel emissions. In 2022, new reporting accounted for 13% of total reported rail and air travel.

In 2022, to support our transition to a 100% fully electric fleet by 2026, we updated our Company Car Policy. It restricts the selection to electric or ultra-low emissions vehicles (less than 50g/km) only, with contribution to a home charging unit for fully electric vehicles. By year end 2022, 12% of our fleet comprised electric vehicles, expected to increase to 33% in 2023. In addition all cars available through our colleague salary sacrifice scheme are also limited to ultra-low emissions vehicles.

Enforcement actions

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

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 central travel management company, car travel in colleague-owned cars (category 6), water consumption (category 1) and waste generation (category 5) from occupied properties (where data is available).

We continue to review the extent of our Scope 3 reporting and increase coverage where practicable, with the ambition of formally reporting fully on purchased goods and services and capital goods (categories 1 and 2). Please refer to our Basis of Reporting for further detail on our methodology, available on our website. Data is presented gross of any carbon offsets.

		2022		2021 (restated)		2019 baseline	
		UK	**Total**	UK	Total	UK	Total
Scope 1 (tCO_2e)	Natural gas, oil (generators), vehicle fleet, refrigerants	**1,350**	**1,435** Ⓐ	1,629	1,703	1,936	2,128
Scope 2 (tCO_2e) Location based	Electricity, purchased heat and steam	**2,065**	**4,079** Ⓐ	2,253	4,228	4,213	5,849
Scope 2 (tCO_2e) Market based	Electricity, purchased heat and steam	**11**	**91** Ⓐ	3	184	105	1,880
Scope 1&2 (tCO_2e)	When reporting totals market-based emissions are used	**1,361**	**1,526** Ⓐ	1,632	1,887	2,041	4,008
Energy	EAC volumes (MWh)	**204**	**3,677**	42	3,555		
	Energy use (MWh)	**16,974**	**21,257** Ⓐ	18,130	22,313	22,941	26,205
	tCO_2e per FTE (Scope 1&2)		**0.25** Ⓐ		0.33		0.74

		2022	2021 (restated)	2019
Selected scope 3 (tCO_2e)	Air travel (booked through central travel booker)	**2,826**	252	8,946
	Land travel (booked through central travel booker)	**77**	21	127
	Water (global where available data)	**4**	3	11
	Waste (global where available data)	**409**	92	365
	Total	**3,316** Ⓐ	368	9,449
	Global Scope 1, 2 and selected Scope 3 (tCO_2e)	**4,842** Ⓐ	2,255	13,457

Reporting period:	1 January 2022 to 31 December 2022
Baseline year:	2019
Independent assurance:	PwC has provided limited assurance over selected metrics reported for 2022 (as indicated by Ⓐ) in accordance with International Standard on Assurance 3000 – 'Assurance Engagement other than Audits or Reviews of Historical Financial Information (ISAE 3000), issued by the International Auditing and Assurance Standards Board and, in respect of the greenhouse gas emissions, in accordance with International Standard on Assurance Engagements 3410 'Assurance engagements on greenhouse gas statements', issued by the International Auditing and Assurance Standards Board. The assurance statement can be found on our website.
Consolidation (boundary) approach:	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.
Consistency with financial statements:	M&G plc owns and manages certain investments held on its balance sheet in the financial statements, over which it does not have operational control due to fund governance structures. These are excluded from the scope of reporting under the operational control approach.
Emission factor:	Scope 1 and 3 reporting uses the UK BEIS 2022 GHG Conversion Factors. Scope 2 calculations use the IEA GHG 2022 Conversion Factors for location-based reporting. Market-based reporting uses supplier emission factors for our UK REGO-backed supply and RE-DISS factors where available.
Accounting methodology:	The Greenhouse Gas Protocol Corporate Accounting and Reporting Standard
Materiality threshold:	5%
Data restatements:	Our 2021 reported Scope 1 & 2, and selected Scope 3 emissions have increased by 5.51% to 2,255tCO_2e (previously 2,137tCO_2e). The increase is largely attributed to additional gas consumption (Scope 1) data received for our UK head office after the reporting period had completed.

Investments – implementation strategy

Real-world focus

We apply a 'whole-of-system' lens to the climate transition, and believe it is critical to distinguish portfolio emissions reductions caused by capital allocation from those that result from real-world action by investees. As an asset manager and asset owner, we are focused on the latter, through effective stewardship and climate advocacy. We also want to support the deployment of climate solutions, which present a major structural growth opportunity. For the transition to happen at pace, we believe stronger policy and regulatory signals are needed. We also believe it is critical that the transition is just, with costs and benefits shared fairly between generations, communities and regions. This approach forms the basis of our position on a just transition to a sustainable world, as published on our website in 2021.

Net zero actions

Our transition implementation strategy focuses on four actions:

- Engaging with investees to ensure they have net zero targets, ideally verified by SBTi
- Engaging with clients to encourage a move towards Paris-alignment of mandates and fund objectives
- Increasing capital directed to climate solutions, companies and projects
- Transitioning portfolios, or if unsuccessful, divesting

These are supported by:

- Collective action to accelerate investee alignment with the Paris Agreement climate goals
- Collaboration with regulators and other organisations to improve climate data reporting and standardise measurement methodologies
- Continual development of our own processes, data and reporting, so we can deliver on our plans and commitments effectively with clear accountability
- Growing our range of sustainability and climate-focused investment strategies
- Continued implementation of the asset manager Thermal Coal Investment Policy, especially with a just-transition focus in non-OECD countries

Climate integration

Our asset manager NZIF draws on our work as a member of the Paris Aligned Investor Initiative and of the Institutional Investor Group on Climate Change (IIGCC). Both groups are establishing actions, metrics and methodologies to enable us to decarbonise our portfolios, reduce climate-related risk and allocate more capital to climate solutions. The NZIF is integrated into our portfolio analytics tool, providing investment teams with a clear overview of key metrics and ability to assess transition alignment. While it currently only applies to public equities and fixed income, we will continue to work on other classes as guidance becomes available.

We do not take a linear approach to portfolio decarbonisation, to avoid creating negative, unintended consequences: for example, passing the problem on to someone else through divestment, and missing out on transition-related opportunities. We believe encouraging intensive emitters to formulate robust transition plans and invest in climate solutions is a more effective approach.

Find out more about our engagement strategy on page 80-81

We produce a range of metrics to identify and assess climate-related risks and opportunities, and track progress against our targets. Find out more on our climate metrics pages 82-83. This information helps our investment teams understand the climate profile and trajectory of a fund, and integrate climate considerations into capital allocation and stewardship decisions. We also disclose climate metrics at a product level, for example through fund fact sheets and fund annual reports.

Approach to coal

Our approach to thermal coal provides the foundation for dealing with other high-carbon investments. Coal is a priority because of its major global emissions impact, and the significant risk of stranded assets.

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 developing countries – a forward-looking approach to enable real-world, positive change.

In setting a later target year for coal phase-out in developing countries, we recognise that actions to address climate change should not be disproportionately borne by the poorest. We prioritise engagement to influence companies to adopt credible thermal coal phase-out plans. However where companies cannot or will not adopt a credible plan, they will be classified for divestment and excluded from further investment.

The Asset Manager Thermal Coal Investment Policy, which came into effect in April 2022, applies to all listed equities and public fixed income investments (excluding those managed by M&G Southern Africa) actively managed on behalf of clients, unless a client has requested to opt out. More details on in-scope assets and policy thresholds can be found in the coal policy on our website.

Our asset owner has developed its own Asset Owner Thermal Coal Policy, aligned with the Group thermal coal position, which covers public assets. A number of thermal coal divestments were first considered in 2020, resulting in exclusions across our shareholder annuity and With-Profits Funds that were implemented throughout 2021. We have since updated our coal exclusions to align with our asset manager policy, with further divestments made during 2022.

Taken together, these policies cover 40% of the Group's AUMA at the end of 2022.

Dec '20	Nov '21	April '22	May '22	Sep '22
M&G founding member of NZAMi	**Asset manager sets first interim NZAMi targets**	**Asset manager Thermal Coal Investment Policy comes into effect**	**M&G holds first 'Say on Climate' vote**	**First NZAMi progress report, asset owner publishes first NZAOA interim targets**

Data and analysis

Our climate analysis combines quantitative and qualitative inputs, ensuring our assessments are holistic, forward-looking and focused on the most material and transition-relevant issues.

Scenario modelling is a key tool to help us understand how physical and transition risks, and opportunities, could impact the assets we manage over time. One of the challenges of scenario modelling is how to embed the outputs in decision-making. To address this for our fixed income and equity portfolios, we have licensed Aladdin Climate, an investor-focused climate model for assessing transition and physical risk. Aladdin Climate is embedded within the main investment research and monitoring workflows, providing climate information alongside traditional investment information, unlike previous standalone scenario-modelling solutions. Find out more on pages 84-89.

For our private assets, we have expanded the existing Marsh model to quantify the potential financial impacts from physical risks on our infrastructure assets, in addition to our real estate equity holdings that are already modelled.

Our 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 proprietary ESG scorecard, which is being enhanced to include further climate considerations, including use of Artificial Intelligence (AI) and Natural Language Processing (NLP) to improve our assessment of investees.
- Our portfolio analytics tool (PAT), which incorporates NZIF metrics, allows our investment teams to monitor and visualise climate data and enables them to track progress against relevant benchmarks. In 2022, the PAT was updated to reflect the latest climate science and bring the NZIF in line with relevant IIGCC guidelines.
- Our Coal tool allows users to view how portfolios and benchmarks are positioned against the Asset Manager Thermal Coal Investment Policy.
- Carbonator is a web-based application that combines multiple machine-learning models to estimate the Scope 1 and 2 emissions of private companies that do not disclose adequate climate data.

In 2023, we will continue to strengthen our climate analytics capabilities, including expanding the coverage of our data tools to include M&G Southern Africa and more private assets.

Key priorities include continuing to integrate the NZIF and scenario analysis outputs into decision-making across the business, leveraging our existing data platform. We will also complement binary portfolio-alignment data with our modelling, to help our investment teams build a clearer forward-looking picture of the assets they manage.

Asset manager

All of our investment portfolios are in scope of our 2050 net zero target. As mentioned, portfolio change – i.e. buying and selling assets – does not automatically translate into real-world emissions reductions. And the potential for direct impact, or 'additionality', is different between public and private assets. To accelerate the transition alignment of our portfolios, we are using a combination of stewardship, investment strategies, and advocacy as our climate transition levers.

Interim commitments

In November 2021, our asset manager set an initial interim target to halve the emissions intensity of 20% of AUMA by 2030 (Scope 1 and 2 emissions).

In September 2022, we published our first NZAMi progress report, against the in-scope assets in 2021 of £58 billion. In that progress report, we reported that the emissions intensity (tCO_2e/£m invested) for the public corporate fixed income portfolio declined by 13.9% when compared with a revised 2019 baseline. The emissions intensity for the listed equity portfolio fell by 25.7% over this period.

In September, our asset owner published its first formal set of interim net zero targets, by committing £99 billion of AUMA (2019 baseline) covering equities, corporate debt and real estate assets.

Following the release of the NZAOA interim targets, our asset manager has worked to align with these commitments, increasing assets in scope of their interim target significantly, from 20% to 30.4% of the asset manager's AUMA, reflecting c.£92 billion as at 31 December 2022. The updated scope has been split by asset class in the table below.

Assets in scope of interim target (%AUMA)	
Public equities	13.7%
Public corporate debt	13.4%
Real estate	3.3%

We plan to continue to work with external clients to gain their support for Paris-aligned investment, through focused engagement and by supporting their implementation of credible climate transition plans.

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. In general, private markets have much less available climate data, and the approach to modelling and decarbonising assets can be very sector-specific. Enhanced data collection, management and reporting for our private and alternative assets has been a key focus over the past 12 months, and will remain so in 2023.

Over 2022, our real estate equity business completed desk-based decarbonisation modelling for our internal client capital to set a specific carbon reduction target for direct real estate investments under the NZAOA commitment. Implementation of the UK and Europe Sustainable Development and Refurbishment Framework has continued, enhancing our standards on operational and embodied carbon in new developments and refurbishments. The real estate business has undertaken work to accelerate and improve its approach to gathering tenant energy usage data across our largest portfolios. It has also completed further net zero carbon audits. Priorities for 2023 include interim target setting, enhanced decarbonisation modelling, and further embedding of transition and climate-related analysis in its processes and decision-making.

Climate impact is one of our private infrastructure arm, Infracapital's 10 core ESG areas of focus and a strategic priority. Infracapital continues to focus on science-based net zero roadmaps and is working with each portfolio company to ensure robust climate reporting. Scope 3 emissions were a major focus in 2022, with over 85% of the portfolio now disclosing this data. The investment teams are working with a third-party specialist to conduct climate risk scenario analysis on critical sites across the portfolio. This analysis will inform the development of the private infrastructure climate roadmap. The current ESG focus areas for Infracapital are available on our website.

Asset owner

As an asset owner, we have begun a number of initiatives to mitigate climate risks in our investment portfolios. Key among these is the setting of 2030 interim emissions reduction targets, with the aim of getting to net zero by 2050. These were published in September 2022, using the NZAOA framework.

In September 2021, M&G plc joined NZAOA, a group of 74 leading 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 decarbonisation targets for our public equity and corporate issuer debt exposures, our direct real estate exposure and higher emitting sectors (see below).

We are now in the process of identifying individual portfolio actions required to achieve these targets.

Under the NZAOA framework, we are also required to set engagement targets for the companies in our investment portfolios that emit the highest levels of GHG emissions. These engagements are now commencing in 2023.

Asset allocation/manager selection

From an ESG perspective, we consider the purpose of manager selection to be to identify an investment manager that has the people, process and expertise in place to meet the ESG requirements specified by the asset owner in the investment mandate. In order to achieve this, we ensure our selection process includes a comprehensive assessment against ESG-specific criteria, to enable an appropriate review of the managers' alignment with our purpose, values and priorities.

The asset owner awards mandates to external asset managers where it is in the best interest of asset owner policyholders. As part of the manager selection and monitoring processes, manager data and analytics capabilities are explored, and can be used to inform the Manager Oversight team's view of asset manager expertise with respect to monitoring and managing climate-related financial risks.

Within the asset owner business, we have designated teams responsible for the selection of asset managers. These teams perform investment due diligence (DD) 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 a dedicated section of detailed ESG investment-led questions. In turn, this is supported by the RfP ESG DD questionnaire, which aims to assess managers' wider stance on key ESG issues and activities. This questionnaire includes a specific section on climate change, aiming to assess the robustness and alignment of the manager's climate change and net zero ambitions against our own.

Once an investment manager has been selected and onboarded, the Manager Oversight team conducts ongoing DD reviews. Ongoing DD of existing managers includes regular meetings and site visits. ESG is a standing item on the agenda for each quarterly meeting. Ahead of these meetings, managers are expected to complete the Quarterly ESG DD questionnaire, which aims to assess any changes to the managers' ESG activities or priorities that may have occurred.

Asset owner interim commitments

Engagement

Engaging with the 40 biggest contributors to our financed emissions, to encourage them to set net zero targets that meet best-practice criteria

Public equity and corporate debt

50% reduction in emissions intensity (tCO_2e/\$m invested) for each asset class by 2030*

Real estate

36% reduction in emissions intensity ($kgCO_2/m^2$) within our directly owned real estate portfolio by 2030*

Sectoral decarbonisation

Reducing emissions intensity (tCO_2e/\$m invested) by the amount below by 2030*, across the named sectors.

Sector	Reduction
Utilities	60%
Oil, gas and coal	50%
Materials, steel	40%
Transport, road	50%
Transport, aviation	25%
Transport, shipping	25%

* 2030 refers to end of 2029. Target against 2019 baseline.

Investments – engagement strategy

Shared urgency

The overarching objective of our climate engagement is to ensure investee and stakeholder alignment with the need for effective action in harmony with the Paris Agreement. We aim to establish a shared sense of urgency and focus on implementation and solutions.

We partly gauge progress through data, published plans and actions to implement these. However, we also need confidence that the Boards and management teams of investee companies have the knowledge and commitment needed to navigate the momentous change that lies ahead. As an asset manager, our engagements help us make this judgement. Likewise, as an asset owner, we need to ensure that the asset managers we appoint are aligned with our climate commitments and able to demonstrate genuine climate stewardship.

Asset manager

Stewardship, through engagement and shareholder voting, is how we communicate our expectations to investees. We do this in a spirit of collaboration and knowledge sharing, mindful of the complex challenges presented by climate change, but are also aware of the very tight timelines for Paris-aligned action. We believe all companies should prioritise climate-proofing their business models and operations for the future.

Investees

Climate change is one of our top-down engagement programmes for investee companies, in both developed and developing markets. Our climate engagements focus on strategy, disclosure, goals and targets to achieve decarbonisation, as well as stranded asset risk. At the highest level, we expect investees to commit to reaching net zero in line with the Paris Agreement, and to provide credible targets and metrics for how they will do so. We also expect them to align any direct or indirect lobbying activities with ambitious climate action.

In 2020, we mapped our public holdings to determine a targeted engagement list of 100 investees, based on highest emissions and largest M&G-wide exposure.

This list, referred to as the Hot 100, is updated on a half-yearly basis, to represent a current account of exposures, based on the most up-to-date methodologies.

For each company, we create a specific engagement strategy with a clear objective, key performance indicators to determine progress and a timetable for engagement.

While we recognise that transition plans are likely to evolve with improved knowledge and data quality, if we detect unwillingness or inability to align with the transition, we will escalate. This may include voting to replace Directors, or joining forces with other investors to increase pressure. Should these efforts not generate results, we will consider divesting.

By the end of 2022, we had either assessed or engaged with 54 of the Hot 100 companies identified in August 2022. This represents 74% of the combined financed carbon emissions for M&G's holdings in this target group.

We also have an 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. The M&G Coal Appeals Committee has identified a group of companies for engagement, where investees appear compliant, but phase-out plans for coal either need a timeline or have not been clearly communicated.

Over the course of 2022, nine new coal engagements were initiated, in addition to the 18 started in 2021, prior to the policy coming into effect.

Of the nine engagements undertaken in 2022, three were successful, resulting in those companies being compliant with the coal policy and eligible for investment. Two of the engagements were unsuccessful, resulting in those investees being added to the coal exclusions list and divested. The remainder will be followed up in 2023.

For our private investments, continual engagement is important too. A key focus for us is to encourage improved climate-related disclosure, to help us track decarbonisation efforts and better understand risk exposure.

Collaborative engagement

Collaboration is critical to accelerate the transition. We are active participants in the Climate Action 100+ (CA100+) initiative, which targets the world's major GHG emitters.

We represent the over 700 members of CA100+ as co-leads on three specific engagements, targeting investee companies in the mining, chemicals and energy sectors. We also sit on the CA100+ Corporate Programme Advisory Group, Escalation Working Group and Net Zero Stewardship Working Group, and are active members of six additional company-specific working groups.

The CA100+ project is entering its second phase in 2023, following a consultation on its net zero company benchmark. This will strengthen the indicators used to assess the credibility of companies' climate actions, to close data gaps and promote greater real-world impact.

Client engagement

To support the transition, we need to bring our clients on board. A key part of this is being transparent about our plans, and listening to their views. In the case of our thermal coal policies, we wrote to more than 203,000 clients to explain why we are taking this step, and how this will affect their investments. As an asset manager, we aim to apply the Thermal Coal Investment Policy across all of our portfolios which are in scope of the Policy. However, we recognise that some clients may prefer not to adopt our Thermal Coal Investment Policy. We seek to work in partnership with our clients to accommodate their own climate and thermal coal-related policies, subject to no investments in companies expanding their thermal coal-related capacity for any new business.

Climate engagements

31%

Climate engagements % of asset manager FCE

CA100+ engagements

38%

Engagement % of total asset manager FCE in CA100+ companies

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. Like our internal asset manager, we place the emphasis on science-based action and real-world outcomes. We also believe that time and effort needs to be focused on the most carbon-intensive investees.

As part of our interim climate goals, we have committed to engaging with the 40 biggest carbon emitters in our portfolios, to encourage them to set net zero targets in line with best practice criteria. These issuers currently account for more than 50% of the owned emissions within our equity and corporate fixed income portfolios.

External managers

Although engagements are led by our asset managers, we maintain accountability for the framework used when interacting with investee companies, and in turn commit to engaging with our asset managers 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 ESG & Regulatory team follows a structured approach to engagement, defined by the following actions:

- Annual letter of ESG priorities: we endeavour to 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.
- ESG engagement & voting analysis: all asset managers will be requested to submit regular ESG engagement and voting templates to provide an update on their stewardship activities. This will be reviewed and assessed on an ongoing basis.
- Ad-hoc ESG engagement: where specific engagement activities require further due diligence/escalation, or where specific changes have occurred within the managers' ESG 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 and reduce emissions, as well as 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 will tilt our portfolios away from investee companies that are not on sufficiently ambitious emissions-reduction paths, by instructing our asset managers to change relative exposures on our behalf.

We view the exclusion of any company from a portfolio 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.

Client engagement

In September 2022, we launched a pilot of the Active Impact Community (AIC) in the UK. The community provides a space that allows its members to understand and discuss the connection between sustainability, investments and the role the finance sector can play in addressing societal challenges and mitigating climate change. As the initiative is rolled out further, we hope to gain insights into how we can best address the needs of potential clients through our products.

Industry and policy engagement

We recognise the critical importance of economy-wide change to tackle climate change and that this requires stronger policy and regulatory signals, as well as collaboration with peers to promote best practice and support practical implementation across the financial services industry.

Policy advocacy

M&G is an active respondent to consultations and calls for evidence on ESG policy topics, including climate change, in the UK and EU. We do this individually and through trade associations such as the Association of British Insurers, Investment Association, and UK Sustainable Investment and Finance Association (UKSIF). M&G chairs the ESG Committee of the International Regulatory Strategy Group, which provides extensive opportunities to engage directly with – and to influence – industry peers, regulators and policymakers.

Our climate advocacy targets ambitious transition policy frameworks and actions, creating long-term clarity for private sector decision-making. Among other things, this includes consistent and high quality corporate disclosures, proper incentivisation of climate solutions, support for credible transition activities, meaningful prudential regulation reform and due consideration of the related challenge of nature and biodiversity loss. We recognise that closing the climate financing gap requires direct deployment of capital towards solutions, and we have worked with UK policymakers on ways to increase institutional investors' allocation to private assets.

Industry advocacy

As part of our ongoing active memberships of the Investment Association, Principles for Responsible Investment, the Investor Forum and IIGCC, among others, we continue to participate in a range of meetings and discussions, with climate change being a key focus.

M&G plc is part of a coalition of governments, businesses and organisations in the Powering Past Coal Alliance (PPCA). The PPCA promotes a clear set of principles, including no new financial services or investments for unabated coal-fired power and advocacy for the phase-out of existing capacity.

Climate metrics

Introduction

We use a range of metrics to identify and assess climate-related risks and opportunities, and track progress against our targets. This includes absolute metrics as well as intensity-based indicators that enable comparison across different issuers, portfolios and transition scenarios. In addition to backward-looking data, which indicates the current emissions profile of an asset or portfolio, we also use forward-looking metrics to assess transition alignment and risk exposures over time.

The key backward-looking metrics used across all 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 to inform targeted actions, such as engaging companies on transition plans, data quality and disclosure of this emissions category remains poor, which makes it less reliable for decision-making. Details on definitions of metrics reported and further limitations of data and assumptions can be found on pages 88-89.

Our emissions metrics have been calculated in accordance with Partnership for Carbon Accounting Financials (PCAF) guidance. A notable change this year is the inclusion of M&G Southern Africa (MGSA), which is now under our operational control. This has impacted our numbers due to the generally higher carbon footprint of issuers in that region. We have also included emissions estimates for sovereign bonds for the first time, based on the PCAF methodology released in December 2022, and added emissions data for our private infrastructure investment arm, Infracapital.

In our analysis, 'coverage' refers to the proportion of in-scope AUMA for which we have either reported or estimated emissions data. Asset classes such as cash, derivatives as well as private assets (equity and debt), 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 are invested alongside other clients are also not included. This report focuses on disclosing metrics at an M&G plc level, subject to asset classes included and coverage within these groups.

Public assets (equities and corporate fixed income)

The table below presents emissions metrics relating to public equities and corporate fixed income managed by our asset manager, including on behalf of our asset owner (total AUMA of £175.3 billion). Underlying emissions data is sourced from MSCI.

	2022 (incl. MGSA)	Coverage	2022 (excl. MGSA)	2021	Coverage
AUMA in-scope for metrics presented (£bn)	**175.3**	**N/A**	**165.3**	178.0	N/A
Financed carbon emissions (FCE) – Scope 1 & 2 ('000s tCO_2e)	**12,995**	**70%**	**9,499**	12,412	69%
Financed carbon emissions (FCE) – Scope 3 ('000s tCO_2e)*	**80,683**	**70%**	**58,254**	N/A	N/A
Carbon footprint – Scope 1 & 2 (tCO_2e/£m invested)	**106**	**70%**	**84**	101	69%
Carbon footprint – Scope 3 (tCO_2e/£m invested)*	**660**	**70%**	**514**	N/A	N/A
WACI – Scope 1 & 2 (tCO_2e/£m revenue)	**230**	**81%**	**176**	244	82%
WACI – Scope 3 (tCO_2e/£m revenue)*	**1,233**	**79%**	**1,045**	N/A	N/A

* Denotes a metric calculated for the first time this year, therefore no comparative data is available. The reference in the introduction above to limitations on data quality for scope 3 financed emissions should also be noted.

The year-on-year movement in the emissions of our public equities and corporate fixed income portfolios were largely driven by a reduction from financial movements, offset by the addition of our M&G Southern Africa business, with AUMA of £10 billion. M&G acquired a controlling stake in the M&G Southern Africa business in July 2021, and it was deemed to be under operational control from 2022, meaning that the financed emissions from the business are now included in our metrics.

Excluding M&G Southern Africa, the FCE (Scope 1 & 2) of public equities and public corporate fixed income portfolios dropped by 23.5% to 9,499 tCO_2e over 2022. While the majority of this reduction was due to factors other than portfolio decarbonisation, a small portion of the reduction can be attributed to divestments driven by sustainability-led considerations and implementation of the Thermal Coal Investment Policy (TCIP) from April 2022, and also due to issuer-level decarbonisation.

Similarly, the carbon footprint (Scope 1 & 2) of the portfolio excluding M&G Southern Africa declined by 16.9%, meaning that in aggregate, the emissions associated with each million pound invested across our public corporate assets ended the year lower.

As mentioned, the higher emissions intensity of investees in Southern Africa – largely due to a heavy reliance on coal-fired power generation in the region – has led to an overall increase in our FCE and carbon footprint. The Just Energy Transition Partnership announcement at COP26 in 2021 highlighted the issues faced by South Africa and many developing countries, which need support to navigate the infrastructural challenges of adding low-carbon power generation capacity at a scale and pace to phase out use of coal, while maintaining supply to meet the needs of a growing population and support the economy. We appreciate this need for a just transition and view this as an opportunity, and continue to engage with government departments, local companies, and industry bodies to support initiatives that reduce the fossil-fuel dependence of the Southern African economy.

Sovereign debt

	2022	Coverage
Financed sovereign production emissions (Scope 1 incl. LULUCF) (tCO_2)	**8,927**	**99.7%**
Financed sovereign consumption emissions (Scope 1,2,3 excl. exported emissions, incl. LULUCF) (tCO_2)	**17,625**	**95.7%**
Weighted average sovereign production intensity (Scope 1 incl. LULUCF) ('000s tCO_2/£m GDP PPP)	**0.4**	**99.7%**
Weighted average sovereign consumption intensity (Scope 1,2,3 excl. exported emissions, incl. LULUCF) (tCO_2/ Capita)	**21.6**	**95.7%**

Sovereign debt emissions data is reported for the first time this year, based on £24.7 billion of in-scope AUMA (including assets managed by M&G Southern Africa). In the above table, we have included financed domestic production and consumption emissions, and their respective weighted average intensities. LULUCF stands for Land Use, Land Use Change and Forestry.

Private assets (M&G Real Estate and Infracapital)

	2022	Coverage	2021	Coverage
Real Estate – AUMA in-scope for metrics presented (£bn)	**36.0**	**N/A**	34.8	N/A
Real Estate – GHG emissions Scope 1 & 2 ('000s tCO_2e)	**123.5**	**85%**	82.9	89%
Real Estate – GHG emissions Scope 3 ('000s tCO_2e)	**600.6**	**85%**	607.0	89%
Real Estate – Carbon footprint scope 1 & 2 (tCO_2e/£m invested)	**4.0**	**85%**	2.7	89%
Infracapital – AUMA in-scope for metrics presented (£bn)*	**3.8**	**N/A**	N/A	N/A
Infracapital – GHG emissions scope 1 & 2 ('000s tCO_2e)*	**690.8**	**87%**	N/A	N/A
Infracapital – GHG emissions scope 3 ('000s tCO_2e)*	**8.0**	**89%**	N/A	N/A
Infracapital – Carbon footprint scope 1 & 2 (tCO_2e/£m invested)*	**210.5**	**87%**	N/A	N/A

* Denotes a metric calculated for the first time this year, therefore no comparative data is available

Our real estate assets recorded an increase in absolute emissions over the year (49% for Scope 1 & 2), primarily due to an increase in building usage following the Covid pandemic, increased portfolio size outside of the UK – particularly in countries with more carbon-intensive energy mixes – and improvements to the calculation methodology for Scope 3 emissions. As this is the first year that we have reported on the carbon emissions for Infracapital, no prior year data is presented.

Backward-looking metrics not based on emissions

In addition to emissions-related data, we track metrics that indicate exposure to climate transition risks and opportunities, including fossil fuel and EU Taxonomy-aligned exposures. These metrics are helpful in monitoring our overall position, but do not include our private asset investments in climate solutions. They form the criteria for some of the NZIF categories we use, and help inform strategic decisions such as our Climate Transition Plan.

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 including revenue from fossil fuel generation is particularly relevant given our approach to thermal coal.

Fossil fuel and EU Taxonomy-aligned/Green bond exposure (public assets)

The table below covers fossil fuel and green exposures of our public equities and corporate fixed income portfolios.

	2022	2021
Fossil fuel exposure (excl. revenue from power generation – £m)	**8,780**	8,487
Fossil fuel exposure (excl. revenue from power generation – %)	**5.0%**	4.6%
Fossil fuel exposure (revenue from fossil fuel power generation – £m)	**1,157**	1,029
Fossil fuel exposure (revenue from fossil fuel power generation – %)	**0.7%**	0.8%
EU Taxonomy-aligned (£m)	**6,585**	5,115
EU Taxonomy-aligned (%)	**3.8%**	2.9%
Green bonds - Corporate (£m)	**2,795**	1,865
Green bonds - Corporate (%)	**1.6%**	1.0%
Green bonds - Non-corporate (£m)	**259**	–

Metrics in the table above are based on the £175.3 billion of public assets presented on the previous page. Exposure to fossil fuels has increased in absolute terms across both metrics presented in the table, partly reflecting market movements related to the energy crisis and high oil prices over the year. On top of changes initiated by our investee companies, market movements and portfolio changes, our fossil fuel exposure may also change due to increased data coverage from our data providers.

The metric previously reported as 'Green Exposure' has been split out into EU Taxonomy-aligned (based on MSCI's Estimated EU Taxonomy-aligned revenue for each issuer) and Green bonds (investments in CBI Aligned and CBI Certified Bonds). Both metrics showed growth in terms of absolute value and proportion of overall AUMA. Non-corporate Green Bonds are presented for the first time in 2022. The fossil fuel and EU Taxonomy metrics are based on a pro-rating of exposed/aligned issuer revenue.

Scenario analysis

Methodology and limitations

The scenario analysis presented below covers assets managed by our asset manager, including assets managed on behalf of the asset owner. The majority of the analysis covers public equities, fixed income, and sovereign debt, with the exception of the section on private assets on page 87.

We use climate models that have sufficient coverage across key funds and our largest issuers, while covering our most significant asset classes: equities, corporate and sovereign debt, real estate and infrastructure. Recognising the different strengths and weaknesses of climate models, M&G has licensed a new scenario model in 2022 (Aladdin Climate) to complement our existing suite of scenario-modelling outputs. We have also expanded our modelling to cover new asset classes such as sovereign bonds and infrastructure.

We rely on two modelling partners to provide us with portfolio, sector, and asset-level output data, including:

- future GHG emissions
- emissions intensity
- physical climate damages
- energy flows
- energy demand
- technological capabilities

This data is provided at an issuer, sector, and portfolio level. The data points are aggregated to calculate a climate-adjusted valuation metric and temperature-alignment metric for the portfolio. With these results we seek to improve our systematic approach to identifying and evaluating climate-related risks.

As with any model, the results are heavily influenced by the assumptions made. 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 is a useful tool for interrogating and understanding how climate-related developments could impact the assets we administer and manage.

Another key observation is that the data that underpins climate-scenario modelling is reported by companies at a lag relative to financial data. We have used the most up-to-date information available in all cases. However, for a subset of our analysis, the GHG emissions used in the scenario modelling represents data from prior years.

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 of less than 2°C by 2100 as a result of immediate climate action.
- A disorderly 2°C scenario, in which climate action is not taken until 2030.
- A hot house scenario, which predicts an average temperature change in excess of 4°C by 2100, assuming no global response to climate change.

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 2°C orderly and 4°C 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 88-89.

Forward-looking metrics

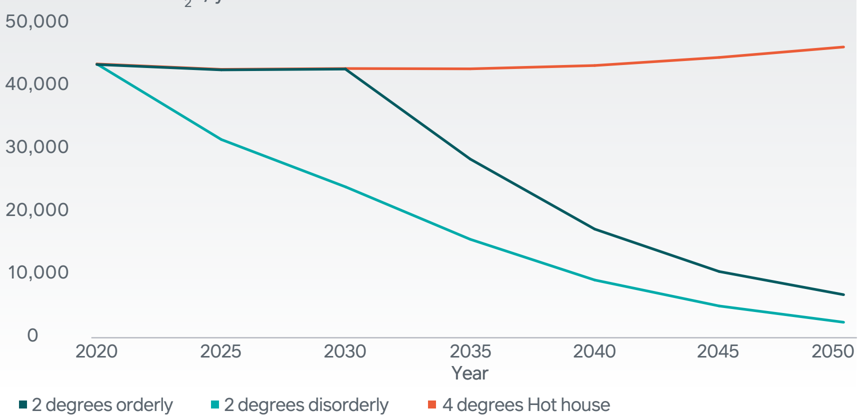
The key forward-looking metrics that our asset manager and asset owner monitor across public assets are:

- 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 monitor 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.

Scenario global emission trajectories

Million tons of CO_2e/year



Source: Network for Greening the Financial System (NGFS)

Public assets (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. Our asset manager's exposure to issuers with SBTi targets has increased over the year, reflecting the growing adoption of science-based targets by companies.

Science-based targets (equities and fixed income)

The table below shows the proportion of our asset manager AUMA that have either committed to or set SBTi targets, together representing £63.3 billion, or a total of 1,398 issuers.

	2022	2021
SBTi target committed (%)[i]	**12.4**	12.1
SBTi target set (%)[ii]	**23.7**	20.3

i Company has committed to setting a science-based target via the SBTi.

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 71% of public equities and corporate debt as at 31 December 2022). ITRs are a fairly intuitive way to assess transition alignment, 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 company, or portfolio, analysed. 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.
- 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.

Our ITR analysis shows that issuers are aligned to a broad range of temperature outcomes. While 28% of M&G's modelled AUMA is projected to achieve alignment with a 1.5°C world by 2030, a significant proportion is projected to exceed 4°C (representing carbon emissions significantly above a Paris-aligned budget). The chart below shows our relative ITR exposure, based on portfolio weightings to a range of temperature levels. Currently our calculations indicate that more than 54% of assets exceed 2°C, given the underlying issuers' transition pathways.

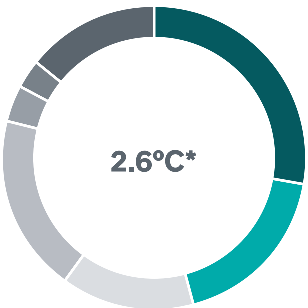
The weighted average warming potential across modelled issuers (public equities and corporate debt) is 2.6°C. Using the updated climate model outputs on a like-for-like basis, there has only been a small change to the overall portfolio's temperature alignment for 2021 (2.5°C). Note that the 2021 figure has been restated to reflect the new model which uses a different methodology from last year's model which showed 2.7°C ITR.

This is reflective of volatility from the energy crisis and the inclusion of the M&G Southern Africa business for 2022.

In summary, this analysis enables us to identify companies that are leaders and laggards in carbon emissions via a simple metric, which aids comparison and provides an input into investment research and decision-making. It can be considered a guide, to identifying sector leaders during portfolio construction, and inform engagement with laggards to encourage greater transition ambition.

Temperature alignment of investees

%



< 1.5	28%
1.5-2	18%
2-2.5	14%
2.5-3	19%
3-3.5	4%
3.5-4	3%
4 <	14%

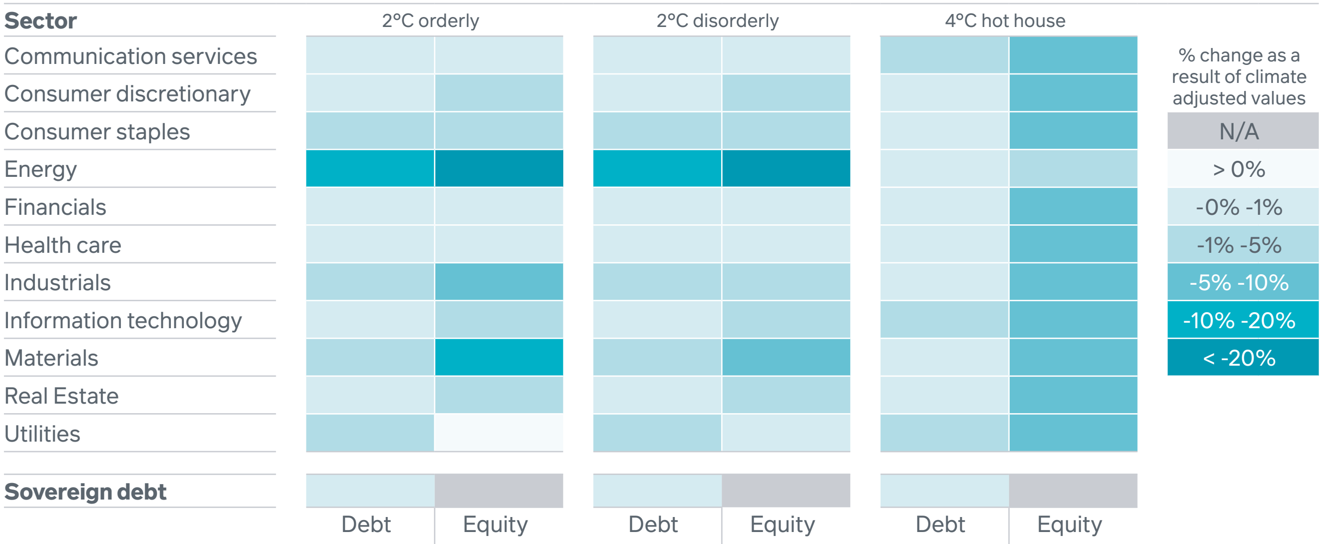
* The weighted average warming potential across investees modelled is 2.6°C (2021: 2.5°C).

Public assets (scenario modelling results)

The climate modelling results help us quantify the relative financial impacts of climate change across different emissions projections, and compare our exposure to climate risks and opportunities over time. Our bottom-up approach provides estimates of the financial impact on all issuers modelled, as well as the impact on asset valuations. From an asset value perspective, there are a few key findings from our scenario modelling:

- Overall, the results indicate that the negative impacts on asset values will be larger under a hot house scenario, driven by the increasing physical risk and second-order macroeconomic impacts towards the end of the scenario horizon.
- Compared with 2021, the relative climate adjusted valuation impact has marginally reduced across most asset classes, while it has increased slightly in terms of temperature alignment. This is largely a result of publicly listed issuers improving their climate resilience on one hand, counterbalanced by the inclusion of our more carbon-intensive M&G Southern Africa portfolio.
- 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 and materials sectors (where significant change is required to decarbonise and align with the transition). By contrast, under the hot house scenario – physical impacts only – asset valuations are impacted fairly evenly across all sectors.

Climate adjusted value impact by sector (current to 2050)*

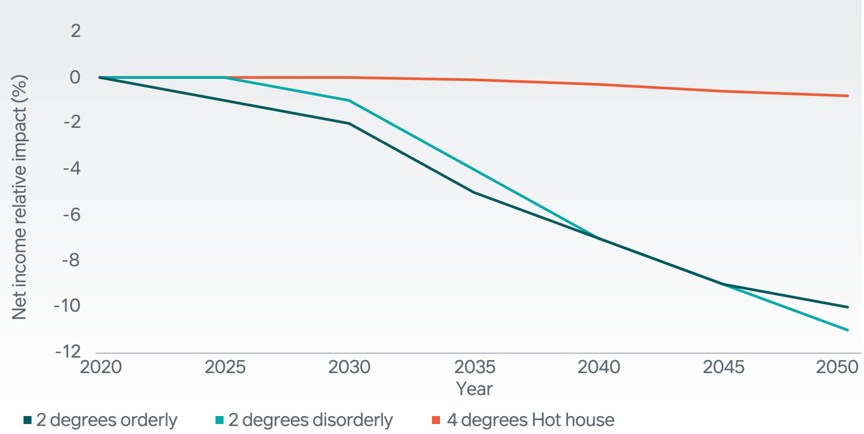


* The 2°C orderly and disorderly scenarios presented in this heatmap reflect transition risk impacts only with a coverage of 70%, and the 4°C hot house scenario reflects physical risk impacts only having a coverage of 86%. Further details on methodology and limitations can be found on pages 88 and 89.

Issuer financial impact

The graph to the right illustrates the relative net income impact on our public listed equities and public corporate debt investments across the three scenarios assessed. They are expressed as a relative shock against a counterfactual scenario, and allow us to compare the physical and transition outputs of the scenario model (which currently are estimated separately). Issuers are impacted most severely in the 2°C scenarios, with the timing of the impact immediate in an orderly transition and delayed in a disorderly transition. In a 4°C physical-risk-only scenario, the financial impact on a relative net income is more muted.

Relative impact on net income across scenarios



Source: Aladdin Climate

Private asset results

We have used the global insurance broker and risk advisor 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 2°C scenario and a 4°C scenario.

Real estate

Total real estate assets modelled

846

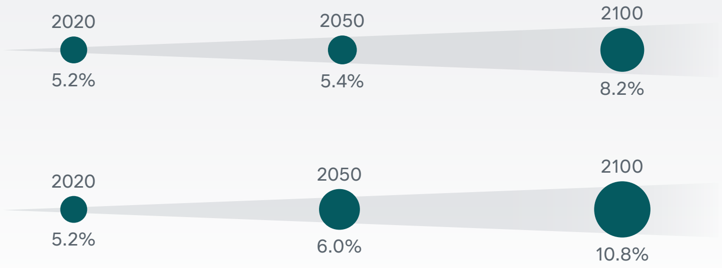
Assets modelled represent 8.6% of Group AUMA

Global average asset exposure to climate hazards

Size of circle is proportionate to the share of asset defined as at high risk of damage resulting from climate hazards at each point in time.

Orderly scenario (RCP 2.6)
% portfolio high risk

Hot house scenario (RCP 8.5)
% portfolio high risk



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 5.4% and 8.2% 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 6.0% and 10.8%.

Looking closer at these assets, it is clear that for the large majority, the physical risk is driven by their current exposure to hydrometeorological hazards (e.g., proximity to 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

Total Infracapital assets modelled

512

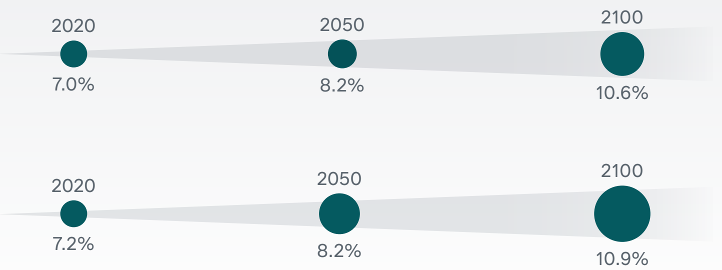
Assets modelled represent 1% of Group AUMA

Global average asset exposure to climate hazards

Size of circle is proportionate to the share of asset defined as at high risk of damage resulting from climate hazards at each point in time.

Orderly scenario (RCP 2.6)
% of modelled portfolio high risk

Hot house scenario (RCP 8.5)
% of modelled portfolio high risk



For the first time we are including climate risk assessments of our equity Infrastructure portfolio's critical assets' exposure to direct physical risk.

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 8.2% and 10.6% 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 8.2% and 10.9%.

Supplementary climate metric and modelling information

Metric definitions

Financed Carbon Emissions (FCE) represent the total financed greenhouse gas emissions associated with a portfolio of investments. For public corporate assets, in line with PCAF guidance (see formula below), we use enterprise value including cash (EVIC) to apportion ownership across the equity and debt parts of issuers' balance sheets. Financed emissions are partly a function of asset size, so can grow or shrink due to changes in M&G's AUMA.

$$\sum_{n}^{i}\left(\frac{\text{Invest. value}_i}{\text{EVIC}_i} \times \text{GHG}_i\,(\text{tCO}_2\text{e})\right)$$

Carbon footprint refers to financed emissions normalised by portfolio value (GHG emissions per million pounds of investment). This indicator is particularly useful for comparative purposes, but sensitive to factors that do not relate to decarbonisation, such as financial market movements which influence portfolio value (the denominator). Carbon footprint is used to monitor progress against our net zero interim targets.

$$\frac{\sum_{n}^{i}\left(\frac{\text{Invest. value}_i}{\text{EVIC}_i} \times \text{GHG}_i\,(\text{tCO}_2\text{e})\right)}{\text{Portf. value (£million)}}$$

Weighted Average Carbon Intensity (WACI) is a measure of the carbon intensity of the portfolio, calculated as the weighted average sum of carbon emissions per million pound of issuer sales. It is not based on emissions' ownership (EVIC), like the above mentioned metrics, but is widely used to compare the climate profiles of investment portfolios.

$$\sum_{n}^{i}\left(\frac{\text{GHG}_i\,(\text{tCO}_2\text{e})}{\text{Sales}_i\,(£)} \times \frac{\text{Invest. value}_i}{\text{Portf. value}}\right)$$

Other emission-related metrics we calculate include carbon intensity (GHG emissions per million pounds of sales) for public assets, and total GHG emissions for private assets.

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 our portfolio 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 goals.
- **EU Taxonomy-aligned**: this is an estimate of the proportion of AUMA invested in issuers that are generating revenues aligned with the sustainability categories in the EU Taxonomy (including climate mitigation and adaptation). It does not include climate solutions investments in our private funds such as Catalyst or Infracapital.
- **Climate commitment of issuers:** We monitor net zero alignment across 'committed' and 'targets set' SBTi categories and green exposure. These metrics are helpful in monitoring our overall position at portfolio level and form the criteria for some of the NZIF categories.

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 84-87 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 in the order of 1.5°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 in the order of 4.3°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.

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 (e.g. 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 (e.g. business interruption).

Data limitations of scenario analysis

There are three aspects of data limitations impacting our scenario analysis, reflecting the current industry-wide challenges of climate modelling.

The first 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.

The second aspect of data limitation relates to lack of high-quality, comprehensive and reliable data upon which the model assumptions are based. Examples are the lack of high-resolution physical hazard data (at a 5mX5m grid level) or the gaps in data relating to supply-chain reliance, which prohibit models from building explicit intra-company dependencies. Models are developed using proxies where data gaps are present, to ensure conclusions are based on the widest coverage possible.

The last 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 asset class and portfolio level decision-making.

Limitations of the public assets climate change model

At the counterparty and portfolio level, the model assumes a constant balance sheet with full foresight. 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.

While this modelling approach implicitly allows for second-order impacts from climate change, it is less suitable for distinguishing between outliers and better performers at an asset level.

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 (e.g. business disruption) as well as the impacts from transition modelling (e.g. 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.

The Board considers the ongoing sustainability and robustness of the strategy and business model of the Group, as explained on pages 6-13, over the long-term due to the long dated nature of our products. This includes longer term themes like technology, digitalisation and climate change which is pertinent to the Group and our clients. Find out more in Clients on pages 46-47.

The Board have also considered the output of the financial planning process reflected in the Business Plan which covers the period to December 2025. The Business Plan was approved by the Board in December 2022, 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 6-13. 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 60-67. 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 2025 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 geo-political uncertainty, along with actions taken by central banks in the backdrop of supply chain disruptions and changing consumer behaviour:

- Optimistic – Inflation peaks and starts falling, helped by easing on supply chain disruptions. Monetary tightening measures taken by Central Banks stabilise and growth is more robust due to consumer and business resilience.
- Pessimistic – Inflation remains high but comes down faster than base owing to falling demand. Accelerated downturn in activity globally owing to demand destruction of high inflation and tightened financial conditions.
- Stagflation – Inflation remains high, possibly going higher and ultimately leading to demand destruction. Central Bank monetary measures tighten into restrictive territory despite falling growth, due to persistent inflation. Nominal wage growth is outpaced by inflation, eating into profit margins and impacting real consumption and investment.

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.

Climate risk continues to be 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:

- 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.
- Current Policies (Hot-house world) - Only currently implemented policies are preserved, leading to high physical risks. Warming exceeds 3°C by the end of the century.

In assessing viability, the Board also considered the availability of the £1.5 billion syndicated revolving credit facility which matures in 2026. As at 31 December 2022, 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 2025.

Basis of preparation

The Strategic Report presented in our Annual Report and Accounts for the year ended 31 December 2022 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 60-67.

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.

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
9 March 2023

Governance

Governance that supports our business

I am delighted to introduce M&G's Governance Report, having completed a year as M&G's Chair. Below I have set out the key areas of governance on which the Board has focused over 2022.

Board composition and embedding

When John Foley announced his retirement in April 2022, the Nomination Committee commenced the succession and skills planning, search and interview processes that ultimately led to the appointment of Andrea Rossi as our Group Chief Executive Officer. It is a vital part of the Board's role to ensure that the Group has in place a Chief Executive with the skills and experience to lead all aspects of our business. We were delighted that Andrea joined M&G in October 2022.

Kathryn McLeland, Chief Financial Officer and Dev Sanyal, Non-Executive Director also joined us in May 2022, and we reported on the recruitment processes for these roles in last year's Governance Report.

These three key appointments enhance the Board's experience and skillset, and we are now focused on embedding our relationships and becoming an efficient working team.

Strategy

One of the most important duties of the Board is to approve M&G's strategy and monitor its delivery. The Board performed a review of our strategy, (set out on pages 10-13) and, in particular, considered all stakeholders when thinking about how to focus our strategy on financial strength, simplification and profitable growth.

ESG focus and shareholder engagement

Throughout the year, M&G has retained its focus on environmental and climate issues, to act responsibly. For the Board, this included putting our first 'Say on Climate' resolution to shareholders at our 2022 AGM, covering both our Climate Transition Plan and our TCFD disclosures. Before the AGM, we spoke to our major shareholders to gauge their views and we were encouraged that 79.57% of votes cast were in favour of the resolution. We led a further engagement process after the AGM to listen to our dissenting shareholders, and heard comments in relation to the nature of our interim net zero targets for our investment portfolios, and on target-setting and monitoring.

We published a further update on our climate plans in November 2022, setting out key achievements since the AGM; including the Asset Owner's first formal set of interim targets towards net zero by 2050, and progress against Asset Management's initial interim targets set in 2021.

Client focus

With the FCA's introduction of the new Consumer Duty regulations, effective from July 2023, aimed at setting clearer standards of consumer protection, it is important we support this with appropriate governance. We have created six non-executive Consumer Duty Champions across M&G, under the leadership of the Retail and Savings CEO, who will focus on the specific consumer duties of individual entities, and ensure that we are aligned in better understanding client needs and enabling our clients.

Going forward, we will receive reports at the Board to ensure we hear the clients' voice in everything we do. Find out more on how we engage with clients and other stakeholders on pages 40-45.

Review and evaluation

I believe that the Chair must lead on reflecting on the Board's performance and how it can improve. In 2022, we carried out our regular year-end evaluation of Board and Committee performance and individual evaluations for all our Non-Executive Directors. We identified several minor items in our evaluation, such as enhancing the quality of Board papers. I am fully committed to making iterative improvements so the Board can function as effectively as possible, and to provide the greatest value to our business and our stakeholders. This supports our strategy to be efficient in how we work, from the top down.

AGM

We thank all our shareholders who attended our AGM in 2022, who voted via proxy or put forward questions. We were very pleased to be able to welcome shareholders to an in-person meeting this year for the first time since demerger. The Board continues to view the AGM as a critical point in our governance calendar at which all shareholders can be heard and can meet our Board members, including Committee Chairs.

Edward Braham
Chair

> "The governance of M&G contributes to its long-term sustainable success and the Board has successfully carried out its duties throughout the year."
>
> **Edward Braham**
> Chair

Experienced leadership

This section shows the skills and experience of each Director and the specific strengths they contribute to M&G's long-term sustainable success

Edward Braham
Chair

N – Chair

Appointment: 14 March 2022

Age: 61

Relevant skills and expertise

Edward Braham joined us as Chair in March 2022. Edward was the Senior Partner of Freshfields Bruckhaus Deringer LLP, the global law firm, and before that was 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 was 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 Board member and Audit and Risk and Nominations Committee member)

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.

Fiona Clutterbuck
Senior Independent Director

N R A R

Appointment: 9 October 2020

Age: 64

Relevant skills and experience

Fiona Clutterbuck was appointed as the Senior Independent Director in October 2020. She performed the Interim Chair role from January 2021 until March 2022.

Fiona is a Non-Executive Director at Sampo plc, the Nordic financial services group. She was the Chair of Paragon Banking Group PLC until September 2020 and a Non-Executive Director of Hargreaves Lansdown plc until October 2020. Her most recent executive role was Head of Strategy, Corporate Development and Communications at Pearl/Phoenix Group (2008-2018). She was previously Head of Financial Institutions Advisory at ABN AMRO Investment Bank and Global Co-Head of the Financial Institutions Group at HSBC Investment Bank.

Fiona served as a Non-Executive Director on the Investment Funds Direct Limited Board until January 2022.

Other appointments

- Sampo plc (Non-Executive Director)

Strengths

- Background as barrister, banker and a managing director.
- Significant banking, wealth and asset management experience.
- Professional services and technology-led innovation.

Andrea Rossi
Group Chief Executive Officer

Appointment: 10 October 2022

Age: 56

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 on 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 their 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 Advisor 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 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

Age: 51

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 (Deputy Chair)

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.

Clive Adamson
Independent
Non-Executive Director

R – Chair A N

Appointment: 22 March 2019

Age: 66

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 position on the M&G Board, Clive is also a Non-Executive Director and Chair of the PAC Risk Committee.

He is Chair at Ashmore Group plc and holds a number of Board positions within the J.P. Morgan Chase group: these include Chair of J.P. Morgan Europe Ltd, which houses the Chase UK digital bank, Chair of Nutmeg Savings & Investments Ltd and Non-Executive Director and Chair of the Audit Committee at J.P. Morgan Securities Plc. He was previously a Non-Executive Director and Chair of the Risk Committee at Virgin Money plc (formerly CYBG plc) and a Senior Advisor at McKinsey & Co.

Other appointments

- Ashmore Group plc (Chair)
- J.P. Morgan Europe Limited (Chair)
- Nutmeg Savings and Investment Limited (Chair)
- J.P. Morgan Securities Plc (Non-Executive Director)

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

Age: 62

Relevant skills and experience

Clare Chapman chairs the Remuneration Committee at Weir Group. She is also 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 included 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.

Claire's previous non-executive experience includes chairing the remuneration committees at Kingfisher plc, G4S plc and Heidrick & Struggles International Inc. She was also a Trustee at Reconcilliation Leaders Network.

Other appointments

- Weir Group (Non-Executive Director)
- ACAS (Chair)
- The Purposeful Company (Co-Chair and Steering Group Member)

Strengths

- Executive background in HR.
- Telecomms, Retail and the Public Sector.

Dev Sanyal
Independent
Non-Executive Director

A R

Appointment: 16 May 2022

Age: 57

Relevant skills and expertise

Dev is the Chief Executive Officer of VARO Energy Group AG, 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 Ltd; Chief Executive Air bp International and Chief Executive, bp Eastern Mediterranean.

Dev was also an independent Non-Executive Director of Man Group plc between 2013 and 2022.

Other appointments

- VARO Energy (Chief Executive Officer)

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

Clare Thompson

Independent Non-Executive Director

A – Chair R R N

Appointment: 7 May 2019

Age: 68

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 on major financial services groups at PwC, predominantly in the insurance and investment sectors. Since stepping down from her executive career, Clare has several non-executive directorships. Her previous Non-Executive Director roles include Direct Line Group plc and The British United Provident Association Limited (Bupa).

Clare is Chair of Investment Funds Direct Limited (IFDL), 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)

Strengths

- Executive background as accountant and audit partner.
- Significant advisory and professional services work, specifically for life insurance and investment clients.

Massimo Tosato

Independent Non-Executive Director

R

Appointment: 1 April 2020

Age: 68

Relevant skills and experience

Massimo Tosato joined M&G as an Independent Non-Executive Director and is also Non-Executive Chairman of M&G Group Limited, MAGAIM and MAGIM. Massimo has 40 years' experience as an investment banking and international asset management as an entrepreneur and senior manager.

Massimo's career has included 21 years at Schroders, where he was recently Chief Executive of Schroder Investment Management Limited and Executive Vice Chairman of Schroders plc. He has also held non-executive Board positions at Nutmeg, an online discretionary investment management start-up, Banca Nazionale del Lavoro, and served as Vice President of the European Fund and Asset Management Association (EFAMA).

Massimo is currently Non-Executive Director of Banca Investis.

He was on the Board of Overseers of Columbia Business School in New York until June 2022 and Non-Executive Director of Pictet Asset Management in Geneva until March 2020. Massimo served as an Advisory Board member of Trilantic Europe Capital Partners LLP until January 2022.

Other appointments

- Banca Investis SpA (Non-Executive Director)

Strengths

- Deep asset management experience in executive career.
- CEO experience.
- Regulatory experience.
- International perspective.

Alan Porter

General Counsel and Company Secretary

Appointment: 22 July 2019

Age: 59

Relevant skills and experience

Alan Porter was appointed General Counsel and Company Secretary in July 2019, having held the same role at Prudential plc since September 2012. Prior to that, he was the Group General Counsel of Tesco plc for four years and held various senior legal positions at British American Tobacco plc and Farmers Insurance Group. He began his career at Simmons & Simmons.

Alan was Chairman of the GC100 – the association of General Counsels and Company Secretaries of the FTSE 100 – from January 2018 to January 2020, and was a member of the Takeover Panel from 2007 until 2022.

Alan is a solicitor and also a member of the State Bar of California.

Key

- R Risk Committee
- A Audit Committee
- R Remuneration Committee
- N Nomination Committee

A balanced Board, a balanced agenda

These pages tell you more about the composition of the Board and its members, the meetings we have held over 2022 and how we have spent our time

Find out more on the M&G Diversity policy and goals on pages 48-51

In April 2022, the FCA published amendments to its Listing Rules, which will require that M&G, in future reporting periods, includes a 'comply or explain' statement in its Annual Report. This should state whether we have achieved certain board gender and ethnic diversity targets, and requires us to disclose numerical data relating to the gender identity and ethnic background of our Board and Executive Committee members. The requirements are based on the following targets:

- At least 40% of M&G's Board is women (including those self-identifying as women).
- 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)).

Gender	Number of our Board members	Percentage of our Board	Number of senior positions on our Board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
Men	5	56	2	6	60
Women	4	44	2	4	40
Ethnic group					
White British	5	56	2	6	60
Other white (including minority-white groups)	3	33	2	3	30
Mixed/multiple ethnic groups	–	–	–	–	–
Asian – Asian British	1	11	–	1	10
Nationality					
British	6	67	2	7	70
Italian	2	22	1	1	10
Australian	1	11	1	1	10
French	–	–	–	1	10

Figures as at 31 December 2022

We are pleased to confirm that M&G has achieved all the targets set out by the FCA. The proportion of women on our Board is over 40%, two of the senior Board positions are filled by women (SID and CFO) and one of the Board is from a non-white ethnic minority background.

How the Board spends its time

The Board balances its agenda to ensure it covers all statutory and regulatory duties, as well as allowing time to consider strategic and governance matters. In 2022, the agenda was weighted between regular items and specific focus areas. Our typical Board agenda allows time for:

General matters

Minutes and matters arising and reports from the Chairs of each committee on its activities.

Business updates

Regular performance, financial and ESG reporting. The Group Chief Executive Officer, CEO – Retail and Savings, Managing Director – Asset Management and Chief Financial Officer will typically report in this section, other members of the Executive Committee will report on an ad-hoc basis on other matters that require escalation to the Board.

Strategy

Covers the oversight and refresh of our strategic objectives, projects and transactions, as well as approvals needed from the Board under M&G's delegated authority framework, including items such as the business plan and dividend.

Risk, regulatory and governance

Regular reporting from the Risk and Compliance, Regulatory Affairs, Legal and Company Secretariat functions.

In addition to the regular reporting above, areas of progress for the Board in 2022 are set out in the table on page 105

The Board's year

The timeline below sets out key events, decisions and actions during 2022, and how we involved stakeholders and took account of their interests

2022

Strategy, governance, risk and opportunity management

January

- Received regulatory approval for acquisition of Sandringham Financial Partners
- Announced digital wealth partnership with Moneyfarm
- Approved acquisition of responsAbility Investments AG, a leading impact investor

February

- Announced acquisition of TCF Investment, becoming a provider of model portfolio services
- Approved Modern Slavery statement
- Launched Future+/PruFund in Europe
- Considered Board evaluation, with suggested actions

March

- Announced full-year results and declared dividend to shareholders
- Approved share buy-back
- Welcomed Edward Braham to the Board as Chair

April

- Approved Solvency II Group reporting
- Approved updated Culture Dashboard
- Approved acquisition of Continuum, the financial advisory firm
- Approved Conflicts of interest framework

May

- Welcomed Kathryn McLeland as Chief Financial Officer
- Welcomed Dev Sanyal as Non-Executive Director
- M&G's AGM takes place
- Completed acquisition of responsAbility Investments AG
- PwC replaces KPMG as M&G's auditor
- Reviewed employee engagement plan

June

- Board Strategy meeting
- Approved M&G's Sustainability Report for publication

Understanding the views of stakeholders, the interests of colleagues and the fostering of business relationships

January

- Considering the long-term prospects for all stakeholders in light of the opportunity to meet rising demand for investment advice and wealth solutions across an expanding UK retail market
- Considering our colleagues as we integrate new parts into our business
- Thinking about better understanding the needs of clients and enabling clients
- Supporting our strategies to deploy a full savings and advice offering in the UK and to grow external flows in asset management

February

- Commitment to our suppliers and other stakeholders to help end modern slavery, human trafficking, child labour and any other abuse of human rights
- Oversight of products that will align with our purpose to help people manage and grow their savings, responsibly
- Evaluating our performance and effectiveness on an ongoing basis to bring the best to all stakeholders

March

- Considering the views of the regulator and markets around solvency and risk appetite and keeping our focus on our strategy of maintaining our financial strength
- Taking into account investor relations over the longer-term
- Ensuring all our stakeholders are served by bringing the right skills on to the Board and ensuring all our Board members can then support and challenge the business effectively

April

- Meeting the requirements of our regulators on an ongoing basis
- Maintaining oversight of our culture and thinking about the best ways to receive information to allow the Board to monitor culture
- Considering our stakeholders in the round when we think about conflicts, and particularly focussing on protecting clients through good conflict awareness and management

May

- Keeping the Board skills robust and up to date, in order that they can serve all stakeholders in changing environments
- Hearing from our shareholders, particularly our retail shareholder community, about what matters to them
- Considering the requirements of our investors and regulators that our business have thorough external assurance
- Thinking through meaningful employee engagement by planning who the Board will meet and what they will talk about

June

- Taking time to look across the business at our strategy ambitions, and in particular thinking about our shareholders and colleagues over the longer term
- Taking into account our wider communities and environments as well as serving investor client needs by publishing clear updates on our Sustainability ambitions and achievements

July

- Undertook deep dives on change, transformation, and greenwashing
- Approved M&G Wealth - Growth Plan for financial advice

August

- Announced half-year results and interim dividend

September

- Launched 2022 Sharesave
- Official opening of Kildean office
- Reviewed Consumer Duty project structure and actions
- Reviewed progress on Board evaluation actions

October

- Appointed Andrea Rossi as Group CEO, replacing John Foley
- Reviewed Consumer Duty high-level implementation plan
- Received annual Health & Safety report
- Received Sustainability programme update

November

- Considered M&G's strategy and Business Plan

December

- Approved 2023-2025 Business Plan
- Considered feedback from firmwide employee opinion survey
- Released IFRS 17 market update
- Approved Delegated Authorities

- Continuous review of challenging topics to test our knowledge and ensure we are well informed as a Board to support all stakeholders

- Considering our duties to Wealth clients and the long term success of our business for investors and colleagues in reviewing our Wealth business unit

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- Considering the views of the regulators and markets around solvency and risk appetite and keeping our focus on our strategy of maintaining our financial strength
- Taking into account investor expectations over the longer-term

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- Ensuring colleagues at all levels can commit to the business and share in its success
- Visiting our colleagues on site to understand their roles and drive our strategy of business simplification
- Thinking about wider duties to Retail clients and how we can put in place the right governance to champion these

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- Ensuring our business leadership is strong and effective to create the right working environment for colleagues, the right offerings for our clients and the right long term outcomes for investors

- Colleague well-being and safety are key to our culture at M&G

- Thinking about what we can offer both our current and future clients and investors as we build a Business Plan and considering how we can support our strategy to deliver profitable growth and maintain financial strength

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- Ensuring timely and clear disclosures for our investors as well as meeting all requirements set by our regulators
- Hearing the employee voice at regular intervals through the year to understand what our employees need and how they feel about our strategy and culture
- Keeping decision-making clear and controlled to give comfort to our investors and regulators and ensure we have frameworks supporting a simplified business

Board and Committee attendance

Total meetings	Board 11	Audit Committee 8	Risk Committee 6	Remuneration Committee 12	Nomination Committee 3
Clive Adamson	11/11	7/8	6/6	–	3/3
Edward Braham	9/9	–	–	–	2/2
Clare Chapman	11/11	–	3/3	12/12	3/3
Fiona Clutterbuck	11/11	8/8	6/6	12/12	3/3
John Foley	9/9	–	–	–	–
Kathryn McLeland	7/7	–	–	–	–
Andrea Rossi	2/2	–	–	–	–
Dev Sanyal	7/7	5/5	3/3	–	–
Clare Thompson	10/11	8/8	6/6	11/12	3/3
Massimo Tosato	11/11	–	–	11/12	–

Board

Of the 11 Board meetings held, two were joint with the Audit Committee to consider our full-year and half-year results. Edward Braham joined the Board as Chair on 14 March 2022. Kathryn McLeland joined the Board as Chief Financial Officer on 3 May 2022. Dev Sanyal joined the Board on 16 May 2022. Andrea Rossi joined the Board as Group Chief Executive Officer on 10 October 2022 when John Foley stepped down.

Audit Committee

Eight meetings were held. There were also two joint meetings held with the Board, two joint meetings held with the Risk Committee and one ad-hoc meeting. Dev Sanyal joined the Committee on 25 May 2022.

Risk Committee

Six meetings were held. There were also two joint meetings held with the Audit Committee. Dev Sanyal joined and Clare Chapman stepped down from the Committee on 25 May 2022.

Nomination Committee

Three meetings were held. There were also six meetings of a sub-committee of the Nomination Committee during the year, focused on the appointment of the Group Chief Executive Officer. Edward Braham joined the Committee as Chair on 14 March 2022.

Remuneration Committee

12 meetings were held. There were no changes to the Committee membership during the year.

Group Governance Framework

Forums and documents

The Group Governance Framework (GGF) is comprised of three parts: (i) the forums we use to govern; (ii) how we make decisions and (iii) how we conduct ourselves. The forums and documents comprising the GGF are set out below:

Theme		Key Documents
The forums we use to govern	– The M&G Board and its Committees	– Listing Rules and Disclosure Guidance and Transparency Rules – UK Corporate Governance Code – Terms of Reference – Division of Responsibilities
	– Material Subsidiaries (PAC and MGG) and their Committees	– FCA Handbook – Supervisory Statement 5/16 – Material Subsidiary Corporate Governance Manual – Terms of Reference
	– Other regulated and non-regulated subsidiaries	– FCA Handbook (as applicable) – Subsidiary Corporate Governance Manual – Terms of Reference
	– Executive Committee and Management Committee structure	– Executive Governance Manual – Terms of Reference
How we make decisions	– Approvals and decision-making framework	– Delegated Authorities
How we conduct ourselves	– Code of Conduct, policies and ways of working	– Code of Conduct – Policies (MetricStream)

Governance Structure

This part of the report sets out the Board's corporate governance structures

Committee terms of reference
www.mandgplc.com/investors/shareholder-information/corporate-governance

Roles and responsibilities of the Board

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. The Board is specifically responsible for:

- approving our strategic aims, objectives and purpose, proposed by management, setting our standards and culture, and ensuring that these are aligned
- oversight of effective risk management and internal control processes, including macroeconomic, financial environment and emerging risks
- taking strategic decisions and the approval of any changes relating to M&G's capital, corporate and/or listed structure
- setting our ESG strategy, values and principles

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.

The Board delegates certain responsibilities to its committees and, in compliance with the Code, has established an Audit Committee, a Nomination Committee and a Remuneration Committee. We have also established a separate Risk Committee. The Terms of Reference for each Board Committee were reviewed and approved by the Board in December 2022 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. All Non-Executive Directors have access to Audit, Risk and Remuneration Committee papers even if they are not members.

The Non-Executive Directors, led by the Chair, meet regularly without Executive Directors present.

Board composition

The Board is comprised of nine Directors: a Non-Executive Chair, two Executive Directors (Group Chief Executive Officer and Chief Financial Officer), a Senior Independent Non-Executive Director and five Non-Executive Directors. 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 Audit Committee, Remuneration Committee and Nomination Committee.

Schedule of Matters Reserved for the Board and delegations

Matters and decisions for Board approval are set out in a formal Schedule of Matters Reserved to the Board (last reviewed and updated in December 2022). This includes approving the Group's strategic aims, objectives and purpose and annual Group financial budgets.

Other specific responsibilities are delegated to Board Committees, which operate within clearly defined terms of reference approved by the Board.

Day-to-day management of M&G is delegated to the Group Chief Executive Officer.

Full details of the Schedule of Matters Reserved for decision by the Board and the responsibilities delegated to the Board Committees is in the Corporate Governance section of our website.

The roles of the Chair and the Group Chief Executive Officer

The roles of the Chair and the Group Chief Executive Officer are clearly segregated. The division of responsibilities is set out in writing. This document was considered and updated in December 2021 as part of the annual Terms of Reference reviews, and reviewed by the Company Secretary in December 2022, with no changes found to be required. A full explanation of each of these roles is set out below.

Directors' inductions, training and development

All new Board members have a structured induction programme on appointment, which includes an overview of all our business areas and key 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, next scheduled for June 2023.

Throughout 2022, we provided dedicated Directors' training sessions on:

Dedicated Board training: M&G Zero; SMCR; FCA Consumer Duty and customer journeys; cyber and technology and enterprise risk; cloud strategy - risks and opportunities.

Audit specific training: IFRS 17; non-financial risk; IFDR Regulatory Regime; ESG and climate reporting and assurance; hedging within the group.

All employee training (in which the Board participated): financial crime; non-financial risk; health and safety; conduct at M&G; and information and data security.

All Board members are invited to participate in all sessions, regardless of Committee duties. Where appropriate, we open up relevant training sessions to Non-Executive Directors on our subsidiary boards.

For each forthcoming year, the Board plans its training, by collecting feedback from Non-Executive Directors on topics of interest and guidance from management on key areas. The training schedule is available at every meeting for Board members to recommend any changes, and remains under review throughout the year.

To ensure the Non-Executive Directors are aligned with all employees, Non-Executive Directors are kept informed of the mandatory online training required of all colleagues.

Information to the Board

Board members receive formal papers a week ahead of each Board or Committee meeting, which enables them to make 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 standard 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 2022. Directors may also take independent professional advice at M&G's expense, if required. If any Director has concerns about the running of M&G, or a proposed action that cannot be resolved within the Board forum, these may be reflected in the Board minutes.

The Company Secretary circulates minutes of each Board meeting following the event for comment and approval to ensure an accurate record is captured.

Tenure, election, reappointment and removal of Directors

Directors are typically appointed by the Board and then put forward for election by shareholders at the subsequent 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 145.

Group Governance Framework

The Group has a Group Governance Framework (GGF) which comprises three parts: (i) the forums we use to govern; (ii) how we make decisions and (iii) how we conduct ourselves. The forums and documents comprising the GGF are set out on page 100.

Subsidiaries

Independent Non-Executive Directors are appointed to the Boards of M&G's Material Subsidiaries: M&G Group Limited (MGG) and The Prudential Assurance Company Limited (PAC). Each of these entities has a Board of Directors led by an independent Chair, and an Audit Committee and Risk Committee, comprised entirely of independent Non-Executive Directors. The PAC Board also has a With-Profits Committee and an Independent Governance Committee, as required by regulation, which are also comprised of independent Non-Executive members.

Dialogue between the Board, Audit and Risk Committee Chairs at Group level occurs on an ongoing basis with their counterparts on the Material Subsidiaries, to ensure an effective information flow and escalation of issues. The Boards and Committees of the Material Subsidiaries are also committed to the highest standards of governance and follow our internal policies, set out in a dedicated manual – the Material Subsidiary Corporate Governance Manual, which covers appointment of Directors, annual evaluation, and standards and delivery of Board materials. The governance arrangements for the Material Subsidiaries are overseen by the Nomination Committee.

Our Subsidiary Corporate Governance Manual ensures there is sufficient oversight of the governance arrangements of subsidiaries other than PAC and MGG. A number of these subsidiaries have Independent Non-Executive Directors on their Boards, either to comply with local regulation or for good governance.

Executive governance

We have established an Executive Governance framework, comprising management committees aligned under the members of the Group Executive Committee. The Executive Governance framework supports the Executive Committee members and, as required, subsidiary boards within M&G, with specialist review and advice.

Executive Governance processes are set out in a dedicated manual – the Executive Governance Manual.

Governance structure: roles and responsibilities

The diagram below sets out the roles and responsibilities of the Board members and the Company Secretary.

Chair

- leads the Board and is responsible for its overall effectiveness in oversight of the management of M&G
- sets the Board agenda primarily focused on delivering M&G's strategic objectives
- draws out knowledge and experience from Non-Executive Directors
- shapes the culture in the Boardroom
- ensures that adequate time is available for discussion of these issues and that all Directors contribute effectively

Senior Independent Director

- works closely with the Chair, acting as a sounding board and providing support
- acts as an intermediary for other Directors as and when necessary
- is available to shareholders and other Non-Executive Directors to address any concerns or issues they feel have not been adequately dealt with through the usual channels of communication
- with the Non-Executive Directors, reviews the Chair's performance and carries out succession planning for the Chair's role
- attends sufficient meetings with major shareholders to obtain a balanced understanding of their issues and concerns

Non-Executive Directors

- provide constructive challenge, strategic guidance and specialist advice to hold management to account
- scrutinise and hold to account the performance of management and individual Executive Directors against performance objectives
- sit as members on various committees to provide challenge, guidance and direction on specific areas, and report back to the Board on these
- in addition see below for specific Non-Executive Director duties

Group Chief Executive Officer

- leads the business, proposes and implements strategy and chairs the Executive Committee
- responsible for all operational and strategic management of M&G
- ensures management fulfils its obligations to the Board to provide information in an accurate and timely manner
- manages M&G's risk profile
- keeps the Chair informed of all material issues
- sets the vision for our culture, values and purpose

Chief Financial Officer

- reports directly to the Group Chief Executive Officer
- has responsibility for the Finance function and its operations
- supports the Group Chief Executive Officer in all aspects of financial reporting, investor engagement and business planning
- champions the company's focus on sustainability and diversity and inclusion
- is a member of the Group Executive Committee

Company Secretary

- supports the Chair and Group Chief Executive Officer in fulfilling their duties
- provides regular corporate governance updates on topics which may affect M&G or the Board
- available to all Directors for advice and support
- manages M&G's Secretariat function, which provides administrative and governance support to the Board and its Committees
- is a member of the Group Executive Committee

Specific Non-Executive Director roles

- Clare Thompson acts as Whistleblowing Champion for M&G. Find out more on her work on page 114.
- All Non-Executive Directors are responsible for engagement with the workforce. The Board considers collective responsibility for employee engagement to be the most appropriate method for our business. We believe that this approach allows a range of perspectives in bringing the shareholder voice into the Boardroom, and allows Non-Executives to support one another in how they engage with colleagues. Throughout 2022, the Board monitored its work in this area through dedicated additional reporting. Find out more on page 42.
- The Board is responsible for overseeing that Non-Executives at subsidiary level take on the Consumer Duty Champion roles required by the FCA's Consumer Duty.

Board Committees and Group Executive Committee

The Board has established an Audit Committee, a Nomination Committee, a Remuneration Committee and a Risk Committee. These Committees form the independent oversight element of the Group Governance Framework by the Non-Executive Directors. The terms of reference for each of the Board's Committees are documented formally, approved by the Board and updated as necessary. Each Committee Chair provides regular reports to the Board on the matters covered at each Committee meeting. Full details of each Committee's activities throughout the year are on pages 108 to 123 in the Committee Reports.

Nomination Committee

- overseeing the composition of the Board and its Committees
- assisted by HR, recruitment of new Board members
- succession planning for the Board and its Committees
- taking an active role, together with HR and other management, with respect to our diversity and inclusion strategy and associated objectives, including monitoring of their effectiveness
- on behalf of the Board, considering governance arrangements around the Group

Audit Committee

- reviewing our financial statements, related announcements and other financial and ESG information provided to shareholders and other stakeholders
- reviewing the effectiveness of our system of internal financial controls and internal control systems and whistleblowing procedures
- overseeing the assurance of financial and ESG reporting
- monitoring and reviewing internal audit activities, reports and findings
- receiving and reviewing reports from our external auditors
- monitoring the effectiveness and independence of our external auditors and making recommendations to the Board in respect of their remuneration, appointment and dismissal

Risk Committee

- advising the Board on our emerging risks, risk strategy, risk policies, risk appetite and current risk exposures
- overseeing the implementation and maintenance of the overall Risk Management Framework (including the embedding of sustainability and ESG into this framework)
- overseeing our procedures for detecting fraud, preventing bribery and non-compliance
- reviewing our risk assessment processes and capability to identify and manage new risks

Remuneration Committee

- establishing, approving and maintaining the principles and framework of our remuneration policies and ensuring compliance with those policies
- determining the design, implementation and operation of remuneration arrangements for the Chair, the Executive Directors, members of senior management, and certain other individuals identified by relevant regulations

Executive Committee

The members of the Executive Committee are:

- Group Chief Executive Officer
- Chief Financial Officer (CFO)
- MD Asset Management and Chief Investment Officer[i]
- Retail and Savings CEO
- Director of Corporate Affairs
- Chief Risk and Compliance Officer (CRCO)
- Chief Strategy and Transformation Officer
- General Counsel and Company Secretary
- Chief People Officer

The Chief Auditor is an invitee to all Executive Committee meetings.

This Committee is established by the Group Chief Executive Officer and has responsibility for the operational management of the business on a day-to-day basis.

The 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.

The Committee reviews all material or strategic matters being proposed to the Board and approves certain levels of expenditure under M&G's delegated authority framework.

i Title will become Asset Management CEO from April 2023

Review and evaluation

2022 Review and 2023 Actions

Ongoing review and evaluation of our performance as a Board means we maintain high standards of governance and keep the right skills in place to oversee our business.

At the end of 2022, the Board undertook an internal evaluation of its performance through a questionnaire to each Board member, including topics such as Board dynamics, meeting conduct, Board paper processes, decision-making, regulatory matters, risk and capital, culture, governance and people. The questionnaire also contained dedicated sections to evaluate the Board's Committees and the Chair.

The results of the questionnaire were collated and analysed by the Chair and Company Secretary, with a report produced and considered by all Board members in February 2023. The report was used to create a 2023 work plan, with action points for the year, summarised below. The Board will review progress against these action points throughout 2023, with a view to completing actions by February 2024.

The Chair evaluated the performance of each Non-Executive Director in January 2023 through individual meetings, including discussions of the questionnaire results. The Senior Independent Director evaluated the Chair, including reviewing the Board's feedback on the Chair provided in the questionnaire. The outcomes of the Chair and non-executive evaluations were considered at the Nomination Committee at its February 2023 meeting to support the proposed elections and re-elections of the Chair and Non-Executive Directors at the AGM.

Summary of 2022 review findings

The report identified a number of strengths of the Board, including:

- Strong progress in 2022, in building Board skills and experience through its new members
- Good establishment of executive/non-executive relationships under new Group Chief Executive Officer and Chief Financial Officer
- Very good Board focus on strategy in 2022
- Robust debate in meetings
- Progress in both governance and culture
- Ongoing improvements in information to support business performance monitoring
- Growth and development in Group Chief Executive Officer's top executive team
- An effective and successful Group Chief Executive appointment process

All Committees received overall positive feedback and were found to be operating effectively.

The Board identified areas of focus and related actions to enhance its performance. See summary table below:

Themes and Summary Actions

Board Skills and Roles

- Review and refresh of Boards Skills Matrix
- Review PLC tenure and succession plan
- Review of international iNED community

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

Regulatory Relationships

- Establishing the new Group Chief Executive Officer's relationship with regulators

2021 Review progress

The table below sets out the items we identified at the end of 2021 and agreed to take action on in 2022 to enhance our performance.

Themes identified end of 2021	Progress in 2022
Board Composition and diversity	
– Opportunity for enhancing skills on the Board – A request for another member of the Audit Committee	– Dev Sanyal joined our Board in May 2022 and joined both the Audit and Risk Committees. – The Nomination Committee considered Committee membership requirements at its April 2022 meeting and reviewed Non-Executive Director skills and updated the Board's list of desirable skills in October 2022. – Further actions around succession planning have been set for 2023.
Strategy	
– Linkage between the firm's purpose and strategy – Further time for debating strategy	– Our culture programme tested colleague understanding and connection to our purpose, values and behaviour. Detailed updates were given at the Board's annual Strategy Offsite in June 2022. – The Board held a number of strategy discussions at its September, October, December 2022 and January 2023 meetings and approved our strategy, which closely aligns with our purpose.
Competitor/client information	
– Enhance reporting and debate on clients and competitor	– Board members have been provided with a regular update email for each of the Asset Management and Retail & Savings segments, covering market and competitor information. The Board is receiving a new monthly performance report including client metrics.
Relationships with the PRA/FCA	
– Ongoing focus on strong, transparent regulatory relationships and effective communications.	– The Chair, Group Chief Executive Officer, Chief Financial Officer, Chief Risk and Compliance Officer and the Non-Executive Directors have meetings with our regulators on a frequent basis. Each Board meeting receives a full report on all regulatory affairs.

How we comply with the Corporate Governance Code

Our compliance with the 2018 UK Corporate Governance Code, and how we have applied its Principles and Provisions

The 2018 UK Corporate Governance Code can be found on the FRC website

The table below sets out examples of how the Board has done this for each Principle, enabling our shareholders to evaluate our Code compliance for themselves. We have not attempted to include all details in this table, but focused on the key actions that demonstrate our adherence to the Code. We have also signposted different parts of the Governance Report where you can find more information.

The Company complied with the Code save that Fiona Clutterbuck held the role of Interim Chair from 11 January 2021 until 13 March 2022. Fiona also continued in her roles as a Non-Executive member of the Audit, Risk, Remuneration and Nomination Committees. Her Senior Independent Director duties were carried out by Clare Thompson during this time period. The Company was therefore not technically compliant with Code Provision 24 from 1 January 2022 to 13 March 2022 in this reporting period, as the Interim Chair of the Board was also a member of the Audit Committee. Compliance with the Code was restored following Edward's appointment as Chair with effect from 14 March 2022.

	Code Principle	Read More
	Board leadership and company purpose	
A	The Board has been found to have operated effectively over 2022, using an internal board evaluation to test this. Focus on M&G's long-term success and profitable growth continues to influence decision-making on key decisions, including the appointment of the Group Chief Executive Officer, the strategy refresh and the acquisition of responsAbility and Wealth entities.	Page 105
B	M&G's purpose has been updated, and we are strengthening our culture and values through the development of the culture dashboard, which the Board reviews on a quarterly basis.	Page 42
C	The Board has measured performance carefully through dedicated presentations from all key parts of the business and regular management information, including changes to the agenda where necessary. Through the Audit Committee, the Board has reviewed the testing of and challenged M&G's internal controls and is satisfied with their robustness.	Page 59
D	Stakeholder engagement continues to cover a range of topics, with focus on clients as M&G serves a wide range of audiences across individual, institutional and professional investors. This supports our aim to better understand client needs and to enable our clients.	Pages 42-45
E	We were pleased that our employee opinion survey in 2022 showed that our colleagues feel comfortable to speak out and we have embedded this important principle within our Code of Conduct.	Page 48
	Division of responsibilities	
F	Edward Braham, as Chair, has led the Board effectively throughout 2022 and the Board has focused on developing its working practices, the relationships between Non-Executive and Executive Directors, and how the Board skills and experiences can be enhanced	Page 105
G	The Board has maintained the required composition throughout the year save as disclosed above. Edward Braham took the role of Chairman in March 2022 and, at the same time, Fiona Clutterbuck resumed the Senior Independent Director (SID) duties.	
H	All Non-Executive Directors have committed appropriate time to their roles and made themselves available for additional meetings as required. This has been reviewed by the Nomination Committee.	
I	The Company Secretary has been effective throughout the year and has continued to enhance Board paper preparation and reporting processes. Governance manuals have been updated to support subsidiary and executive governance.	
	Composition, succession and evaluation	
J	The composition and range of skills on the Board is reviewed by the Nomination Committee, typically in February and October. The Nomination Committee reviews succession planning material and when required would lead a director selection process, with weight given to gender, ethnicity and diversity of thought.	Page 108
K	The Nomination Committee considers Committee membership and length of tenure annually, typically in February.	Pages 108-109
L	The evaluation of the Board for 2022 was undertaken by means of an internal questionnaire circulated to each Board member. The Board was found to be operating effectively.	Page 105

Code Principle	Read More
Audit, risk and internal control	
M The Audit Committee has led on assessing auditor independence and effectiveness and has reviewed all material narrative and financial statements in 2022. The Auditor Independence Policy was applied to PwC from 1 December 2020, with non-audit services that are not permitted to be performed by our auditors managed down during 2021 to ensure PwC's independence from 1 January 2022.	Page 115
N The Board is satisfied that a fair, balanced and understandable assessment of the firm's financial position is presented in the Annual Report and Accounts, and has fulfilled its responsibilities across information it provides to its stakeholders to present a fair, balanced and understandable assessment of our position and prospects.	
O The Risk Committee has assessed Principal Risks and set and monitored risk appetite. The Audit Committee has overseen the Control Framework.	
Remuneration	
P The Remuneration Committee have engaged with our shareholders extensively over 2022 on proposed changes to our Directors' Remuneration Policy. This will be put to all shareholders for approval at our 2023 AGM.	Pages 122-123
Q The Remuneration Committee has led a formal and independent process to measure and challenge executive remuneration. None of the Executive or Non-Executive Directors have taken any role in setting their own remuneration.	
R Remuneration outcomes for Executive Directors are ultimately determined by the Remuneration Committee, applying independent judgement and ensuring the wider context of business success, culture and risk appetite are taken into account alongside any applicable regulations.	

Nomination Committee Report

Nomination Committee composition
Edward Braham (Chair)
Clive Adamson
Clare Chapman
Fiona Clutterbuck
Clare Thompson

Priorities for 2023

- **Non-Executive Director development - training to help enhance the skills base**
- **Executive talent and succession - ensure appropriate planning is in place**
- **Diversity and inclusion - progress against our diversity and inclusion targets**
- **Subsidiary governance - enhance and simplify our processes**

Dear Shareholder

As Committee Chair, I am pleased to report on the formal meetings of the Committee in 2022 and in particular on the ad-hoc decisions throughout the year, including the CEO succession process.

With John Foley's decision to retire in April, a key area of focus of the Committee was ensuring that there was an inclusive, thorough and exacting recruitment process to find a successor. We are satisfied that the process achieved these aims, and we were pleased to announce in September 2022 that Andrea Rossi would succeed John Foley as Group Chief Executive Officer. We believe that Andrea's experience in both global asset management and insurance is an ideal fit for M&G. He is an inspiring and proven leader, with a strong track record of delivering profitable growth and outstanding client outcomes. Further detail on the succession process is below.

Board composition, succession planning and performance

The Committee's primary role is to ensure that Board composition is appropriate and to keep succession planning of both Executive and Non-Executive roles under ongoing review. The Committee refreshed its Skills Map twice during 2022 and again in early 2023. Our Skills Map enables us to objectively identify and track the skills required by the Board, and to plan for emergency and longer-term succession.

Committee membership was last reviewed in February 2023.

The Nomination Committee also annually reviews Non-executive roles and responsibilities that exist in addition to Committee duties. This was carried out in February 2023 and it was determined to continue the approach of all Non-Executives having collective responsibility for employee engagement, with a specific time allocation given. This allows for the broadest set of perspectives when bringing employee feedback for discussion at Board level.

We also consider the performance of each Director annually to ensure their contribution continues to be strong.

Executive Directors – skills mapping and succession

The Committee reviews the skills of the Executive Directors and succession plans for these positions on an ongoing basis. This process helps to ensure that a diverse group of potential candidates is available for succession.

On 27 April 2022, M&G announced John Foley's retirement and a search for successor commenced. We engaged external consultants MWM Consulting to support the Chair and Committee in the search for a new Group Chief Executive Officer. This included providing external mapping work on the Group Chief Executive Officer role. MWM Consulting has no connection with M&G or our individual directors.

We formed a sub-committee to consider in depth the skills and experience of the candidate pool. During May, June and July, we spent time reviewing feedback from our advisers, development plans, skills gaps and strength of management succession.

This process developed a shortlist of candidates that went through our final interview and selection process. We then held interviews with shortlisted candidates to ensure a correct fit for the Board, following which the Committee unanimously agreed to recommend Andrea Rossi as our new Group Chief Executive Officer and Executive Director of M&G, with effect from October 2022.

We have been pleased with the collaboration between Non-Executive Directors and senior team members throughout this process. While the result of this process was an external appointment, we seek to develop talent and promote internally as well as ensuring the market for all key roles is well understood.

Areas of focus in 2022

CEO recruitment process
Appointment of Andrea Rossi as Group Chief Executive Officer

Induction of new Non-Executive Directors
Overseeing the induction of Edward Braham and Dev Sanyal

Skills mapping and succession planning
Reviewing the skills of the Board and ensuring that robust succession planning is in place

Diversity and inclusion
Reviewing progress against our diversity and inclusion targets

Appointment process

The Committee has a duty to consider, and recommend to the Board the appointment of any M&G Director.

The appointment of a new Director begins with the identification of a vacancy or skills gap. The Committee assesses any skills required, arising either through vacancy or the evolving needs of the Board. We then work with HR to produce a clear role specification to focus recruitment activities.

Using the role specification, HR arranges external searches for Non-Executive roles and internal and external searches for Executive roles. The next stage is interviews, at which Committee members (among others) test the candidates' skills, including fit with culture -both essential criteria when we consider the selection of Board members. We aim to set the right tone from the top in how we go about our work and how our candidates represent and support M&G's culture.

Induction process

Structured and tailored induction programmes were prepared for me and Dev Sanyal. These covered, among other matters, meeting key members of the 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. Following the induction process, Dev and I gave feedback to continue to improve the induction process.

Board independence and conflicts

We take into account the independence criteria set out in the Code as part of the selection process for Non-Executive Directors.

The Committee then, at least annually, assesses the independence of each Non-Executive Director to ensure that they can continue to properly fulfil their roles on the Board and provide independent challenge to the Executive Directors. In February 2023, the Committee reviewed each Non-Executive, taking into account tenure, external roles and relationships. The Committee determined that all Non-Executive Directors were free from any relationship or circumstances that could affect, or appear to affect, their independent judgement and therefore all Non-Executives could properly be recommended for re-election at our 2023 AGM as independent Board members.

In line with the Code, over half of our Board members, excluding the Chair, are independent Non-Executive Directors.

Given the role was for a temporary period, with a planned successor, Fiona Clutterbuck continued to serve as an independent Non-Executive at the same time that she held the Interim Chair role (1 January to 13 March 2022 in this reporting period). In February 2022, just prior to Fiona transitioning back to the SID role, her independence was reconfirmed (using the annual process outlined above) alongside all other Non-executives.

The Committee reviews conflicts on appointment and then on an as-needed basis as the external positions of non-executives change. The Committee is supported in this by the Risk and Compliance team.

Time commitment

The Committee maintains oversight of Non-Executive Directors' time commitments, to ensure that each has sufficient time to dedicate to their role in order to discharge their responsibilities effectively. In February 2023, the Committee assessed the number and nature of the Non-Executive Directors' external commitments and how this impacts the time required for their Board and Committee appointments. The Committee also reviewed and updated the time required to carry out the various non-executive roles at M&G. We concluded that all Non-Executive Directors had demonstrated sufficient time to devote to M&G, including during any potential periods of corporate stress.

Diversity and inclusion and gender balance

The Committee received updates on the progress made during 2022 on our diversity and inclusion (D&I) strategy, including a focus on well-being, internal communication and engagement, and the external market. We have expanded the scale of our well-being agenda including: Well-being Wednesdays, Well-being OnDemand channel and Diversity Network events. Overall we continue to see positive progress against our 2022 plan with tangible examples of embedding our D&I strategy more firmly across the business.

Some current examples include the Menopause and Social Mobility Task forces, the expansion of the Investments D&I Forum to include active participation in the administration of the Aspire Career Exploration programme and the continued adoption of European Diversity and Inclusion charters by our EU offices. Our members particularly took time to consider M&G's D&I statistics, given recent changes at Board level.

Find out more on M&G's approach to D&I and progress against targets in the Sustainability section of the Strategic Report on pages 32-39. M&G's D&I Policy is on our website. Details of the gender balance of the Board and senior management is on page 97 of the Governance Report. M&G has one D&I Policy, which applies to all colleagues and to the Board.

In 2023, the oversight of D&I at M&G will be undertaken by the Board.

Subsidiary governance

The Committee is responsible for the governance arrangements of its material subsidiaries: PAC and MGG. During the year, we reviewed the composition of the Material Subsidiary Boards and changes to them, ensuring that these continued to comply with regulatory requirements and had succession plans. The Committee assesses performance and approves ongoing appointment of all Material Subsidiary Non-Executive Directors in a process designed to mirror the annual election of Directors by shareholders at an AGM.

Edward Braham
Committee Chair

Role and responsibilities of the Nomination 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 and the long-term success and future viability of M&G. The Committee is also responsible for elements of diversity and inclusion leadership.

The Nomination Committee's terms of reference
www.mandg.com

Membership and meeting attendance
page 100

Audit Committee Report

Audit Committee composition

Clare Thompson (Chair)
Clive Adamson
Fiona Clutterbuck
Dev Sanyal

Priorities for 2023

- **Continue to oversee management's progress on the implementation of IFRS 17, the new insurance accounting standard**
- **Consider ESG reporting and assurance requirements in an evolving regulatory environment**
- **Continued oversight of the Group-wide Integrated Control Framework**
- **Maintain focus on the internal control environment, in particular first line ownership**

Dear Shareholder

I am pleased to present the Audit Committee Report, which provides an overview of the work of the Committee and its activities during the year.

On 3 May 2022, we welcomed Kathryn McLeland as our new CFO, and we have seen significant progress in the Finance function under her leadership since joining.

We have had a smooth transition in our change of external auditor from KPMG to PwC. We have quickly developed a collaborative relationship with the PwC team and have welcomed their constructive challenge.

The adoption of IFRS 17 and the consequent improvements to our finance systems was a recurring item on the agenda during the year. We will continue to be involved in overseeing management's progress during and following its implementation throughout 2023.

ESG reporting continues to develop and the Committee is particularly focused on the assurance, both internal and external, to support reporting in the evolving regulatory environment. The Committee received training during the year on ESG assurance, and we are mindful of greenwashing risk. Other training sessions received during the year are on page 111.

In relation to the internal control environment, the Committee welcomes increasing co-operation between the Risk and Internal Audit functions, which has achieved greater consistency in terms of the assessment approach.

The Committee continues to work closely with the Risk Committee, and the cross-membership principles that we follow ensure that members of both committees have information provided in the most efficient way. Maintaining regular communication with the subsidiary company audit committee chairs ensures efficient governance.

Finally, I'd like to welcome Dev Sanyal, who joined the Committee on 25 May 2022. I would also like to take this opportunity to thank my fellow Committee members for their efforts and dedication over the year.

Clare Thompson
Committee Chair

Areas of focus in 2022

- Monitoring the Finance Change agenda including readiness for the adoption of IFRS 17
- Considering findings reported by the external auditor, overseeing the transition to our new external auditor and reviewing the external audit strategy and plan
- Considering and challenging the impact of economic uncertainty on key economic assumptions and valuations
- Reviewing and recommending to the Board the full-year and half-year 2022 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 annual Sustainability Report and other ESG reporting
- Oversight of non-financial assurance, including ESG
- Monitoring the effectiveness of the Internal Audit function, including the recruitment of a new Chief Auditor and oversight during transition
- Transition to new Chief Financial Officer

Composition

The Board considers all members of the Committee to be independent and that Clare Thompson has recent and relevant experience of working with financial reporting and accounting matters.

Find out more about details of the Committee members' relevant skills and experience on pages 94 to 96.

2022 Meeting Schedule

In 2022, there were eight regular scheduled Audit Committee meetings and one ad-hoc meeting. In addition, two joint meetings were held with the Risk Committee, and two joint meetings were held with the Board to consider our full-year and half-year results.

The Committee met separately for training sessions on:

- IFRS 17
- Non-financial risks
- Investment Firm Prudential Regime
- ESG/climate reporting and assurance
- Hedging strategy

In addition, the Committee met individually with the heads of the Internal Audit function and the Risk and Compliance function, and the lead audit partners from our outgoing auditors, KPMG, and our new auditors, PwC, without the presence of management. These private sessions are on a rolling programme, with the internal and external auditors each holding at least two of these private sessions a year.

Annual evaluation of Audit Committee performance

An evaluation of the Committee's effectiveness was carried out using an internal questionnaire which was circulated to the Committee members. The Chair and Company Secretary collated and analysed the results of the questionnaire, and produced a report which was considered by all Committee members in February 2023.

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

Find out more in the Board Evaluation section of the Governance Report on page 105.

Financial Reporting 2022

The Audit Committee reviewed the full year 2022 consolidated and Company financial statements.

The review included:

Fair, balanced and understandable

In assessing whether the 2022 Annual Report and Accounts are fair, balanced and understandable and provide the information necessary for shareholders to assess M&G's position, the Audit Committee gave regard to whether:

- Information contained within the Strategic Report, in particular the Business and Financial Review, represents a fair reflection of performance during the year, and is consistent with the information contained within the financial statements.
- Significant issues identified in this report, including the key areas of judgement and estimation, as well as any other significant issues disclosed within the narrative reporting, are consistent with the financial statements.
- Alternative performance measures (APMs), which have been reviewed, updated and approved by the Committee, 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 was appropriately disclosed.
- 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 2023, the Committee reviewed the going concern assessment undertaken by management for the purposes of the 2022 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, the Committee considered the associated assessment of longer-term viability to support the Viability Statement. We considered the strategic and financial planning process to support the Viability Statement in conjunction with an assessment of M&G plc's key strategic priorities, business model and forecasting undertaken as part of the business plan.

We 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. In making this determination, we concluded that three years was the most appropriate period for longer-term viability in line with the business plan.

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. Due to the significant increase in the balance of the deferred tax asset recognised in respect of carried forward trading losses, we have concluded that for the year ended 31 December 2022, recognition of the deferred tax asset should be disclosed as a significant judgement.

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 related credit risk assumptions) used in the estimation of insurance contract liabilities for annuities. – Allowance for maintenance expenses, persistency and other assumptions used in the estimation of insurance contract liabilities for policyholder liabilities other than annuities. – Mortality, inflation rates and discount rates used in the estimation of the Group's defined benefit pension liabilities. We considered the rationale provided by management for the assumptions used and reviewed any benchmarking provided. As part of the review, we continued to consider the reasonableness of these assumptions in light of the ongoing impact of COVID-19 on mortality experience. 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 26 and 33 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 and investments in private equity vehicles. 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. Following review and challenge of the assumptions made, 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 32 of the consolidated financial statements.
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 and terminal profit margins. We considered the results of the work performed and confirmed the conclusion that no impairment was required in respect of Asset Management. We agreed with management's assessment that the M&G Wealth Platform cash-generating unit was impaired by £25 million. Further information on key assumptions can be found in Note 12 of the consolidated financial statements.
Valuation of intangibles acquired at acquisition	We reviewed the value of the customer relationship intangible recorded as a result of the acquisitions of Sandringham Financial Partners Limited, TCF Fund Managers LLP and responsAbility Investments AG. We considered the key assumptions used to determine the value at initial recognition, including discount rate and future cash flow projections. Based on the review, we were satisfied that the value of the intangible recorded at the acquisition date is appropriate. Further information on intangible assets can be found in Note 12 of the consolidated financial statements.

Critical estimate/Key judgement	How the Committee addressed the issue
Deferred tax asset	We have reviewed 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, in assessing the value of the deferred tax asset that should be recognised. Based on the review, we are satisfied that the value of the deferred tax asset recognised is appropriate.
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 with respect to whether contracts issued by M&G plc contain significant insurance risk and whether they contain discretionary participation features. 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 there was sufficient evidence to support the view that no impairment was required.

IFRS 17

IFRS 17: Insurance Contracts is a new accounting standard, effective from 1 January 2023, which will have a significant impact on the financial reporting of our insurance contracts.

M&G plc has an ongoing project to implement IFRS 17 and the Committee have received regular updates throughout the year on the progress of the project, including achievements to date, priorities for the remainder of the year, and key milestones into 2023.

Find out more on page 116.

Sustainability reporting

The Committee has a responsibility to review, and challenge as appropriate, any ESG or climate-related reporting in any material public documents in relation to compliance with relevant regulations, legislation and standards. This includes, but is not limited to, the climate-related financial disclosures required by the UK Listing Rules.

The Committee has received regular updates during 2022 on our planned ESG disclosures, and has challenged, reviewed and approved these accordingly.

In particular:

- the Communication of Progress (COP) on the United Nations Global Compact (UNGC) submission
- the Sustainability Accounting Standards Board (SASB) reporting document for publication on our website
- the Taskforce on Climate-related Financial Disclosures (TCFD) within the Annual Report and Accounts
- the Sustainability Report, published at the end of June 2022
- the Carbon Disclosure Group (CDP) questionnaire.

The Committee applies the same level of rigour to its review and challenge of these disclosures as in its review of external financial reporting. The Committee also recognises that there remains work to do in sustainability reporting as data improves and requirements change, and will continue to work with management to develop our reporting in this area.

The Committee has reviewed our plans for sustainability reporting in 2023, and our planned approach for assurance over ESG metrics during this reporting cycle.

During the year, the Committee also received training on upcoming ESG disclosure requirements and developments.

Audit and Corporate Governance Reform

The former Department of Business, Enterprise and Industrial Strategy launched a consultation in 2021 on audit and corporate governance reform, seeking views on proposals to strengthen the UK's framework for major companies and the way they are audited.

In June 2022, the Committee received an update on the UK Government's response to the consultation, which was published in May 2022.

These reforms are expected to have an impact on M&G's corporate governance and audit arrangements. However, the response makes clear that the implementation of some measures is expected to take several years due to the changes to legislation.

The FRC published a position paper in July 2022, setting out how it expects the next stage of reform to proceed, in particular any elements that can be progressed ahead of legislation.

This was followed by a consultation launched by the FRC in November 2022, on a proposed minimum standard for Audit Committees in relation to the appointment and oversight of external auditors.

The Committee will continue to engage with management on any changes required to our processes and procedures in light of these proposals.

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.

Our approach to risk culture is centred around the enterprise-wide programme of 'I Am Managing Risk', which requires colleagues to take personal responsibility and accountability for identifying, assessing, managing and reporting risk and working together to do the right thing for our clients, other stakeholders and our business in line with our Code of Conduct.

This approach to risk culture is supported by the Operational Risk Policy, Framework, Standards and associated training which articulates 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 internal testing of controls over financial reporting. 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. We recognise the need for our people to be able to raise concerns on any issue in complete confidence, without fear of retaliation.

The Whistleblowers' Champion, who is also Chair of the Committee, provides governance and oversight of the Speak Out programme, which supports our Whistleblowing policy.

Formal reporting to the Committee on the effectiveness of the Whistleblowing policy occurs twice a year. Regular meetings are also held between management and the Whistleblowers' Champion to discuss and review cases and the programme. Individual cases are not discussed with the Committee. We are satisfied that the whistleblowing policies and procedures remain robust and adequate.

Internal Audit

The primary objective of Internal Audit (IA) is to provide independent and objective assurance to the Board and Executive Management regarding the adequacy of the design and effectiveness of the systems of internal control, including risk management, governance and operational processes. This helps them protect the assets, reputation and future sustainability of M&G.

The effectiveness of the Internal Audit function is measured by the Committee using several key performance metrics, including appraisal of the ongoing Quality Assurance Improvement Programme. For 2022, this included the commissioning of an independent external quality assessment of Internal Audit, rated 'Generally Conforms, with no areas of non-conformance noted' – the highest attainable rating under relevant IA professional standards.

The Committee approved the Internal Audit Charter in October 2022 following an annual review to assess its continued validity in light of business developments, IA professional standards and regulatory expectations.

Internal Audit adopts a risk-based audit cycle of work based on an assessment of the inherent risk, prior coverage, control environment and a review of external factors such as emerging industry themes, strategy and Executive Management priorities.

The 2023 internal audit plan was approved by the Committee in December 2022, and will be updated as required to reflect evolving assurance requirements and priorities.

The Chair of the Committee is responsible for setting the objectives and reviewing the performance of the Chief Auditor, who is directly accountable to the Committee with unfettered access to both the Chairs of the Committee and the Board, as well as Executive Management.

A new Chief Auditor was appointed in 2022, commencing role in April 2023, with the Committee overseeing both the recruitment process and arrangements for providing effective cover during the transition period.

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

Transition to new external auditor

The Audit Committee is responsible for conducting the process to select the external auditor and recommends their appointment, reappointment or removal to the Board for approval by our shareholders at each AGM.

Following a tender process in 2020, the Committee recommended, and the Board agreed, that PricewaterhouseCoopers (PwC) be appointed as the external auditor for the period commencing 1 January 2022.

This proposal was approved by shareholders at M&G's AGM on 25 May 2022. In line with the agreed transition process, PwC shadowed KPMG during its audit of M&G's 2021 Annual Report and Accounts, including attending some meetings alongside KPMG.

As with any first year audit, PwC has provided a fresh challenge of our accounting policies and methodology. As a result, we have reallocated certain tax balances within the primary statements to different line items. There is no impact on IFRS profit after tax or equity as a result of these reallocations. Further details are provided in Note 1.1 to the consolidated financial statements.

There were no other significant areas where our interpretation of IFRS differed from PwC.

The Auditor Independence Policy was applied to PwC from 1 December 2020, with non-audit services that are not permitted to be performed by our auditors managed down during 2021 to ensure PwC's independence from 1 January 2022.

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 2022.

Oversight and engagement of external auditor

The PwC audit is being led by audit partner Mark Pugh.

The Committee provides clear guidance to PwC on their expectations and holds meetings with PwC, without the presence of management, to allow the audit team to raise any concerns and remain independent and objective.

The Committee reviewed the external audit plan before the start of the 2022 year end process.

Auditor independence policy

Our Auditor Independence Policy (including the provision of non-audit services) was reviewed by the Committee in December 2022 and will continue to be reviewed at least annually.

The main purpose of the policy is to ensure that:

- we don't engage the external auditor in any non-audit services that are not permitted
- we comply with all other relevant regulation and ethical guidance relating to relationships with the external auditor
- we maintain a sufficient choice of appropriately qualified audit firms.

Certain services need to be approved by the Committee in advance of any engagement.

External auditor effectiveness

The Committee, together with senior management, annually assesses the performance of the external auditor, monitors their independence and objectivity and the effectiveness of the audit process.

This assessment is generally carried out in April each year after the approval of full-year results. However, as PwC were appointed as our new auditors at the AGM in May 2022, we amended the process this year to reflect this transition.

An abridged assessment of auditor effectiveness was carried out in September 2022, based on PwC's review of the 2022 half-year results. The assessment considered topics including the quality of the resource, the overall approach and plan, the execution of the half year review and the quality of communications received. We also considered whether the external auditor had appropriately challenged management's methodology and assumptions, key accounting policy judgements and exercised professional scepticism.

The Financial Reporting Council's Audit Quality Report on PwC, published in July 2022, was also considered in assessing their effectiveness.

Based on the findings of the review performed, it was concluded that we expect PwC to deliver an effective audit service for M&G and its subsidiaries.

A further review will be carried out in April 2023, and on an annual basis thereafter.

Fees paid to the auditor

During the year ended 31 December 2022, the total fees paid to PwC amounted to £16.7 million, of which £2.5 million related to non-audit services. This compares to £12.2 million paid to KPMG in 2021, of which £3.3 million related to non-audit services. The total fee paid to KPMG in 2021 also included £0.3 million of fees incurred in relation to the audit of M&G's defined benefit pension schemes. These schemes continue to be audited by KPMG, therefore no fees were paid to the Group's auditor for these schemes for the year ended 31 December 2022.

The year-on-year increase in fees reflects the additional costs of a first year audit, fees relating to IFRS 17, inflation and increased scope due to a revised audit standard.

A breakdown of fees paid to PwC is given in Note 8 of the consolidated financial statements.

In line with the Auditor Independence Policy described above, 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.
- ESG reporting oversight and the development of assurance in relation to this reporting.

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In Focus

Getting ready to report under IFRS 17

IFRS 17 is the new accounting standard for insurance contracts, replacing IFRS 4, with an effective date of 1 January 2023. Although the 2022 Annual Report is not produced on an IFRS 17 basis, we have operated an ongoing project to prepare for the implementation of this new standard.

Training

Committee members have benefited from a number of training sessions to ensure that they have an appropriate level of knowledge about IFRS 17.

Methodology

IFRS 17 is a principles-based accounting standard. It includes features that are not present in our financial reporting metrics, which results in significant differences in the valuation of the liabilities, and hence shareholder equity, compared with IFRS 4.

As such, IFRS 17 requires a significant number of methodology decisions and implementation judgements.

In 2022, the Committee discussed and approved a number of key methodology decisions including:

- Approving judgements that have a material impact on the IFRS 17 balance sheet. These include the methodologies for determining the contractual service margin at the date of transition; the treatment of the With-Profits Fund estate; and the treatment of non-profit business in the With-Profits Fund.
- Approving methodologies at the discretion of management. These include the use of a 'top-down' or 'bottom-up' approach to setting discount rates; the definition of directly attributable costs; and the definition of the 'coverage units' that measure the insurance services provided.

These decisions were also reviewed by PwC as they were finalised.

Insight and assurance

In April 2022, our external auditors, PwC, provided the Committee with a report on the readiness and preparation of our peers on their implementation of IFRS 17. This provided some insight into the progress other insurers had made in terms of understanding the impact of IFRS 17 on their 31 December 2021 balance sheets, and how they planned to use dry runs during 2022 to migrate the process to business as usual within the required timescales.

PwC also set out its audit plan for IFRS 17, explaining the key milestones for its audit across the following workstreams:

- Transition (1 January 2022 opening balance sheet)
- Methodology
- Actuarial models
- Accounting systems
- Data and assumptions
- Results and disclosures

Monitoring implementation process

The Committee received regular updates throughout the year on progress towards the implementation of IFRS 17.

These updates included progress tracking against key milestones in relation to methodology and assumptions, critical system deliveries and reporting deliverables.

A key implementation risk highlighted to the Committee early in 2022 was the availability of skilled resource. In order to address this, and ensure we have sufficient skilled resource to support the implementation and achieve the required milestones, we entered into a strategic partnership with EY. This helped provide comfort that we have access to skills in short supply with IFRS 17 knowledge, while also receiving a good spread of industry information, insights and best practice.

Implementation remains challenging. The focus in 2023 is on the finalisation of methodologies and judgements, and ensuring that the business is prepared to deliver the requirements of the new standard.

External Disclosures

The Committee reviewed and approved the IFRS 17 market update which was published by M&G in December 2022.

Find out more about the impact of IFRS 17 on our financial statements in Note 1.2.2.2 on pages 189 to 194.

Risk Committee Report

Risk Committee composition
Clive Adamson (Chair)
Fiona Clutterbuck
Dev Sanyal
Clare Thompson

Priorities for 2023

- **Monitor the ongoing impact of geopolitical events on our risk profile**
- **Support the continued embedding of M&G's Risk Management framework, in particular business ownership and monitoring of risk appetite**
- **Oversee the completion of Compliance Review actions**
- **Maintain our focus on an appropriate open and constructive relationship with all our regulators**

Dear Shareholder

I am pleased to present the Risk Committee Report, which provides an overview of the work of the Committee and its activities during the year.

As you would expect, the geopolitical and market events we have witnessed this year required our close attention. In particular, we examined risks arising from the rising inflation and the cost of living crisis, as well as the ongoing conflict in Ukraine.

In March 2022, we welcomed Louise Gelling as Chief Risk Officer (Non-Financial Risk) reporting to Peter Grewal, our Chief Risk & Compliance Officer. Louise brings over 20 years of Financial Services experience and insights, and will be focusing on our approach to non-financial risk management and continuing to enhance the Risk Management framework.

We continue to concentrate efforts to further embed sustainability and environment, social and governance (ESG) risks into our Risk Management framework, while monitoring greenwashing risk. One of our deep dive sessions during 2022 explored this subject in detail.

Other deep dive sessions in 2022 included third-party risk management, change and transformation, reputational risk and investment performance. We value these sessions as they provide detailed insight into very topical matters. They also provide the opportunity to meet relevant members of management to understand and challenge those areas in more detail.

The Committee has overseen delivery of the Risk Review which is now materially complete providing a further step change in risk understanding, awareness and accountability across the organisation aligned to a more mature three lines of defence model to deliver a stronger risk culture.

The Committee continues to work closely with the Audit and Remuneration Committees. The cross-membership principles that we follow ensure conflicts are managed and all Non-Executive Directors have the right information provided in the most efficient way. I have continued my role as Chair of the Risk Committee of PAC, which allows me a wider oversight of risk issues in the Group.

Finally, I'd like to thank Clare Chapman, who stepped down from the Committee on 25 May 2022, and welcome Dev Sanyal who joined the Committee on the same date.

Clive Adamson
Committee Chair

Areas of focus in 2022

- 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 2022
- Monitoring sustainability and ESG risk
- Regularly reviewing and advising the Board on how the assessment and analysis of the top financial and non-financial risks facing M&G were being managed
- Reviewing and recommending updates to the Risk Management framework
- Overseeing the embedding of the Integrated Control framework
- Reviewing and approving methodology and key assumptions for the Solvency II valuation and the results of the Solvency II Internal Model validation
- Reviewing the M&G ORSA and recommending its approval to the Board
- Reviewing and approving compliance and fraud policies
- Advising the Remuneration Committee on risk management considerations to be applied to the Remuneration Policy and performance measures, including risk adjustments to the incentive pool and individual incentive packages

Composition and Schedule

Details of Committee members' relevant skills and experience are on pages 94 to 96.

The Risk Committee held eight meetings during 2022: six regular scheduled meetings and two held jointly 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 meetings. Our CRCO provides written reports to the Committee 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

The Committee is 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, the control environment, and non-financial risks. We also received regular reports from subsidiary Board Risk Committees.

Geopolitical and market events were a key focus area during 2022. We closely monitored M&G's response to the conflict in Ukraine, the impact of inflation and the market response to the UK mini-budget. This included reviewing and recommending to the Board a range of economic scenarios for business planning purposes.

Sustainability and ESG risk has also remained a key area of focus. During 2022, we reviewed a subset of the required scenarios on a full balance sheet basis as part of the Own Risk and Solvency Assessment (ORSA).

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 investment performance, reputational risk, operational resilience, and cyber and ransomware attacks. We also received regular updates on business change activities and key programmes including the enhancement of operational resilience capabilities.

Risk Management Framework and internal control changes

We approved changes to the Risk Management Framework and the risk policies as part of our annual review, as well as a revised risk taxonomy. We also recommended updates to M&G's financial risk appetite and individual risk limits to the Board for approval.

We received regular updates on progress from the Risk Management framework and Function review, which was initiated by the CRCO in 2021. We also oversaw the embedding of the Integrated Control Framework in conjunction with the Audit Committee.

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 and approving the results of the annual programme of Solvency II Internal Model validation. We also approved the Internal Model validation plan for the forthcoming year.

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. In conjunction with the Audit Committee, we also oversaw the Financial Crime Compliance Transformation Programme with an objective to enhance the mitigation and management of Financial Crime risk.

Annual evaluation of Risk Committee performance

An evaluation of the Committee's effectiveness was carried out using an internal questionnaire which was circulated to the Committee members. The Chair and Company Secretary collated and analysed the results of the questionnaire, and produced a report which was considered by all Committee members in February 2023. Find out more in the Board Evaluation section of the Governance Report on page 105.

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 policies and recommending such approval to the Board.
- Providing input to the Audit Committee's review of effectiveness of the Integrated Control framework.
- Reviewing the effectiveness of the Internal Model, including stress testing.
- Reviewing the 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.
- 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

- Clare Chapman (Chair)
- Fiona Clutterbuck
- Clare Thompson
- Massimo Tosato

Priorities for 2023

- **Maintaining alignment of executive remuneration with wider stakeholder experience**
- **Further development of ESG linkage to executive remuneration**
- **Assessing the effectiveness of incentives to reward executives for demonstrating our expected behaviours in delivering business outcomes**
- **Maintaining support for our wider workforce through cost of living challenges**

Dear Shareholder

On behalf of the Board and its Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2022, covering our decisions in respect of remuneration outcomes for the 2022 financial year, the triennial review of the Directors' Remuneration Policy and implementation of the new Policy in 2023.

Performance delivered in 2022

Overall, our results for 2022 demonstrate the resilience of our business model in what has been a challenging macroeconomic environment. In Asset Management our Wholesale business has returned to net client inflows for the first time since 2018, with improved investment performance when compared to peers. Our Institutional business had marginal net client outflows impacted by the UK mini budget crisis in the second half of the year.

In Retail and Savings there was a strong performance from our with-profits business and continued growth in M&G Wealth. Adjusted operating profit for M&G Wealth more than doubled when compared to 2021 following increased

Areas of focus in 2022

Directors' Remuneration Policy

We reviewed the policy for shareholder vote and implementation in 2023. We concluded that the policy remains appropriate with only minor changes related to regulation, removing unnecessary upward discretion and ensuring appropriate levels of flexibility.

Incentive scorecards for 2023

We reviewed our incentive scorecards with the primary objectives of simplification and further alignment with our purpose and strategy. The 2023 scorecards use fewer measures that are critical for delivery of our strategic goals.

Incentive outcomes and windfall gains

We considered the incentive outcomes aligning with our performance, including a robust and detailed assessment of windfall gains on the vesting of the 2020 LTIP awards, taking consideration of consultation feedback from shareholders in reaching our conclusion to make a 10% downward adjustment to the number of shares vesting after applying the outcome of the performance scorecard.

Changes to Executive Directors

During the year we approved both the retirement terms for John Foley and remuneration terms for Andrea Rossi as the new Group Chief Executive Officer. Kathryn McLeland joined as our new Chief Financial Officer in May 2023 on remuneration terms disclosed in the 2021 report.

Supporting our colleagues

We placed increased focus on supporting our colleagues given the current inflationary environment and cost-of-living challenges, including through a one-off payment to lower earning employees in the UK and Europe.

Remuneration Chair statement

shareholder transfers from PruFund. Our Heritage business was impacted by the rising yields in the period which impacted the adjusted operating profit result from our annuity business.

Our capital position remains strong despite being impacted heavily by markets in the period and we are on track to deliver our cumulative operating capital generation target of £2.5 billion by the end of 2024, linked to the 2021 LTIP target.

Clients are at the core of our purpose, which is to help people manage and grow their savings and investments responsibly and it is pleasing that our main client metric, the net promoter score for Retail and Savings, has seen a strong improvement in the year.

2022 Short-term Incentive Plan

The performance indicators driving the outcome of the 2022 Short-Term Incentive (STI) are summarised below.

Financial performance in 2022

Adjusted operating profit before tax (including restructuring costs) is below threshold, impacted by the significant increase in interest rates over the year which resulted in a lower than expected adjusted operating profit from our annuity business. Our adjusted operating profit target was also impacted by large foreign exchange losses on our USD denominated subordinated debt.

Total Capital Generation (excluding market movements) is above the maximum performance level, demonstrating strong underlying capital generation which benefited from higher than expected shareholder capital generated by the with-profits business. Total Capital Generation (excluding market movements) also benefited from the recognition of deferred tax assets due to mark-to market losses on our assets.

With-Profits Fund investment performance significantly outperformed the benchmark demonstrating the benefit to policyholders of the strength and diversification of the Fund's investment approach.

The with-profits renewal expense per policy was above target reflecting lower than expected expenditure on restructuring projects. With-profits new business expense as a percentage of net client inflows was also short of target despite above expected PruFund inflows.

63% of institutional funds outperformed their investment benchmark/ objective to deliver an above target outcome. Whilst there was continued improvement in wholesale investment performance, 50% of funds outperformed their investment benchmark/objective on a rolling average basis over one and three years, which was at the threshold of the performance range. In comparison to peers, wholesale investment performance has improved with 68% of funds now in the upper two performance quartiles over one year (2021: 45%).

Non-financial performance in 2022

Non-financial measures focus on the experience of clients and colleagues and ensuring we operate within an effective risk and controls environment. Although we did not achieve all of the stretching targets established at the beginning of the year, which is reflected in the below-target outcome of the non-financial section overall, the Committee was pleased to observe positive year-on-year trends across many areas of client outcomes, colleague engagement and culture and the control environment.

Better understanding the needs of our clients is a key element of our purpose. In 2022, we have focused on simplification, stabilisation and delivering excellent service to make doing business with us easier, while laying foundations for growth and ongoing improvement. In Retail and Savings our net promoter score was 14, up significantly from prior year and at maximum performance.

Our asset management Trust Ranking, based on an independent study of clients' trust in asset management brands, maintained its position of 5th in 2022, which resulted in an outcome between the threshold and target of the performance range.

Our annual OneVoice survey helps us to understand and drive action to improve colleague engagement at M&G plc. During the year we changed the provider for our OneVoice survey with an accompanying change in methodology. The engagement result shown elsewhere in the report is on the new basis, however we also assessed the score on the old methodology for the purpose of the scorecard. The result of 76 represented a small improvement on the 2021 outcome and was above the threshold performance level, scoring highly in awareness of culture and purpose.

The annual assessment of risk management and internal control effectiveness identified that positive progress had been made across the business in 2022, building on the foundations previously put in place, but also acknowledged that implementation work will continue into 2023 to reach target maturity in this area. The positive trend of reducing the number of overdue high and very high assurance issues continued in 2022, although the outcome of 14% was still below the threshold performance requirement. At 65%, the proportion of self-identified high and very high issues was above target.

As a result of this performance, the 2022 STI delivered an outcome of 50.6% of maximum opportunity for all Executive Directors (compared to an outcome of 70.15% in 2021):

	Measure	Performance	Vesting (Max)
Financial Measures	– Adjusted operating profit, including restructuring costs – Total capital generation, excluding market movements – With-Profits renewal expense per policy – With-Profits new business expense as % of flows	£382m – below threshold £827.6m – above maximum £67.6 – above target 2.0% – above threshold	34.75% (60%)
Investment Performance	– With-Profits Fund (versus benchmark) – Wholesale (% of funds above benchmark) – Institutional (% of funds above benchmark)	7.0% – above maximum 50% – at threshold 63% – above target	5.5% (10%)
Client Outcomes	– Retail and Savings – Net Promoter Score – Investment Management – Trust Ranking	14 – above maximum 5th – above threshold	6.3% (10%)
Colleague Measures	– Sustainable engagement index score	76 – above threshold	1.0% (10%)
Risk & Controls	– % high/very high assurance issues overdue – Proportion self-identified high/very high issues of total	14% – below threshold 65% – above target	3.1% (10%)

2020 Long-Term Incentive Plan

The 2020 LTIP award was the first to be granted under the M&G plc Directors' Remuneration Policy following our demerger from Prudential plc and listing in October 2019, covering the period 2020 to 2022.

	Measure	Performance	Vesting (Max)
Financial Measures	– Total capital generation	£2,420m – above target	57% (60%)
	– Relative total shareholder return	73rd percentile – above target	38% (40%)

The primary measure was total capital generation which was very strong in the first two years of the award period, resulting in an above target performance level despite delivering a negative total capital generation in 2022 as a result of adverse market movements.

The remainder of the scorecard was based on the Company's 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. The performance outcome was just below the upper quartile of the peer group, driven by the continuation of our dividend policy throughout the three year performance period which was at the top end of FTSE 100 levels.

Assessment of windfall gains from the 2020 LTIP

The 2020 LTIP was granted during the initial COVID outbreak in early April 2020. At the time of the grant we disclosed our intention to review the final vesting level of the awards to determine whether there had been an element of windfall gain. The Committee recognised the need to undertake a robust approach, including both an analytical assessment and the application of judgement, and to be transparent in sharing the details of the methodology and conclusions.

This issue was of considerable interest to shareholders, who welcomed the early and transparent engagement on this issue through consultation. The majority of discussion focused on the methodology and basis for the approach taken.

Taking consideration of the feedback received, evolving market practice and the prevailing market conditions in Q1 2023, we have concluded to make a 10% downward adjustment to the number of shares vesting after applying the outcome of the performance scorecard. This adjustment is reflected in the single figure remuneration disclosure for John Foley, former Chief Executive.

We believe the process followed was robust, with a fair and balanced outcome taking into account the interests of all of our stakeholders. Full details of the methodology have been provided on page 143 in the footnotes to the single figure table.

Consideration of pay and conditions across the wider workforce

The Committee takes careful consideration of pay and conditions for the wider workforce in the normal course of its duties. This 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 2022 year-end decision making included:

- The salary increase budget of 5.1% for 2023 across the UK workforce, which was targeted at lower earning colleagues to recognise the inflationary environment and cost-of-living challenges, with no increase applied to executives or senior managers.
- The one-off payments made to colleagues earning below certain pay thresholds in the UK and in Europe to provide targeted and meaningful support in difficult economic times;
- The downward year-on-year percentage change in STI outcome for 2022 for the former Chief Executive, John Foley, relative to a modest positive increase for the average employee; and
- The Chief Executive Total Remuneration Ratio, which was 77:1 in 2022 at median (compared to 52:1 in 2021).

The Committee noted that the increase in the remuneration ratio was primarily driven by the vesting outcome of the 2020 LTIP awarded to the former Chief Executive and that the year-on-year change in all other components of his remuneration (salary, benefits and STI) had all trended below the wider workforce. The Committee was therefore assured that the decisions taken in respect of remuneration outcomes, including a downward adjustment to the 2020 LTIP, were fair and reasonable when compared to the wider workforce experience over the period. The Committee noted that outputs such as the Chief Executive pay ratio would continue to be subject to some volatility over a period where there are changes to the Executive Directors and restructuring activity impacts the demographics of our wider workforce.

Diversity and inclusion is one of our two strategic ESG priorities, along with climate change. In July 2021, we were proud to become the first business in our sector to publish pay gap data inclusive of ethnicity for both 2020 and 2021, and our 2022 pay gap data is presented on page 153. Our commitment to achieving year-on-year improvement in the representation of gender and ethnicity in senior leadership roles is underpinned by our 2023 LTIP scorecard, with targets aligned to 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 Our colleagues section of the report from page 48.

Changes in Executive Director positions

We announced John Foley's intention to retire on 27 April 2022, with his 12 month notice period commencing from that date. John stepped down from the Board on 10 October 2022 and his remuneration is pro-rated to this date in this report. He continued to work until 31 December 2022 and remains an employee of the Company until his retirement date in April 2023. The full terms of John's retirement are provided in the Payments for loss of office section on page 148, which are in alignment with the Directors' Remuneration Policy.

We subsequently announced the appointment of Andrea Rossi as Group Chief Executive Officer and Andrea joined the Board on 10 October 2022. Andrea is receiving a base salary of £875,000 (13% lower than the package that applied to John Foley in 2022), standard pension in line with the wider workforce and maximum incentive opportunity in line with his predecessor, 250% of base salary for both the STI and LTIP awards. There are no other awards or payments connected with Andrea's appointment.

Kathryn McLeland was appointed to the Board in May 2022 as Chief Financial Officer. Kathryn's package was determined in line with our Directors' Remuneration Policy. Full details of remuneration received in 2022 is provided in the single figure table on page 141 and approach to implementation in 2023 is provided from page 154.

Both Andrea and Kathryn's 2022 STI awards have been pro-rated from their respective start dates and their single figure remuneration reflects the amounts received since they commenced employment in 2022.

Triennial Policy review and implementation in 2023

The Policy was introduced and approved by shareholders in May 2020 following our listing in October 2019. It is therefore due for its triennial review in 2023. We have also taken the opportunity to review the implementation of the Policy, with particular focus on the design of the incentive scorecards.

Throughout the review we have paid careful consideration to alignment with our purpose, culture, strategy and the interests of our full range of stakeholders, evolving market practice, corporate governance and regulatory requirements. We have also taken the opportunity to make our remuneration design simpler and more transparent, with fewer and more focused performance measures across our incentive scorecards.

We consulted with major shareholders and they were generally comfortable with the terms of the Policy. There was also broad support for seeking to simplify the incentive scorecards. The Committee welcomed the feedback received and carefully considered this in finalising its approach, in particular for scorecard measures to be underpinned with robust, transparent and quantifiable targets, and clearly aligned with our strategy. This is reflected in the final design for 2023.

Policy review - outcome

The Committee reflected on how the Company had evolved over the past three years and concluded that the current framework remains appropriate, with some minor amendments to take effect from 2023. The changes are explained in the Policy section of this report and primarily relate to necessary updates to ensure we can maintain continued regulatory compliance, removing unnecessary upward discretion/exceptional provisions and introducing some additional modest flexibility.

We reviewed shareholding requirements and have increased the requirement for the Chief Financial Officer to 250% (from 200%), which we believe is more consistent with market practice and creates a more appropriate margin to the Group Chief Executive requirement of 300%. It is also consistent with our principle of creating strong long-term alignment with shareholders.

The Committee considered alternative models for delivering long-term incentives during the review, in the interest of simplification and strategy alignment, and concluded that the current approach remained effective for aligning our executives to our business strategy and stretching financial and strategic objectives.

Certain aspects of the Policy will be kept under review and may be revisited during the 3-year cycle, including further consideration of long-term incentive plan simplification. In this event a revised Policy would be presented to shareholders for approval.

Implementation in 2023

No increases have been applied to base salaries or maximum incentive eligibility for the Executive Directors in 2023.

Incentive plan measures for 2023

We have reviewed the scorecards for implementation in 2023, with the primary objective of simplification and further reinforcing alignment with our purpose and strategy. The STI and LTIP scorecards were last subject to a comprehensive review in 2021. The primary focus of that review was to ensure that we set clear and measurable objectives across a broader range of key non-financial priorities. The Committee remains mindful that having an appropriate balance between what performance is delivered and how that performance is delivered is critical for the long-term success of the company and sustainable shareholder value creation, with key aspects of non-financial performance including the effectiveness of risk management, client experience and outcomes, conduct, culture and ESG.

We believe that the overall balance of measures is still appropriate, but that the number of measures that has evolved over time has resulted in undue complexity, diluting strategically important measures and compromising a simple/transparent link between performance and reward. We have therefore focused on a simplification of the scorecards, utilising fewer measures that are considered critical for alignment to our strategy, culture, values and operational priorities.

The 2023 STI scorecard will have a 60% weighting to financial measures (capital and profit), 20% to client (including investment performance) and 20% to colleague and risk culture.

The 2023 LTIP scorecard will continue to have 75% weighting to financial measures (capital and TSR), with the remaining 25% weighting to ESG measures, which includes both gender and, for the first time, ethnicity targets aligned to our disclosed 2025 diversity objectives, and an own-emissions target aligned to progressing towards our disclosed 2030 sustainability objective.

Further details of the scorecards, including the LTIP performance targets and ranges, are provided in the Link to strategy on page 140 and 2023 Implementation on pages 154-156.

Conclusion

Through our review of the Policy, simplification of the 2023 incentive scorecards and determination of 2022 remuneration outcomes, the Committee has sought to follow robust processes and provide a clear and transparent explanation of the conclusions reached.

The Policy will be subject to a binding vote and our conclusions on the 2022 remuneration outcomes and 2023 implementation of the new policy (including the revised incentive scorecards) will be subject to an advisory vote at the upcoming AGM in May. I look forward to your continued support.

As we look forward to 2023, the Committee will be focused on:

- maintaining alignment of executive remuneration with wider stakeholder experience, including shareholders and colleagues;
- further development of ESG linkage to executive remuneration, strengthening the linkage with value creation and enhanced disclosure;
- assessing the effectiveness of incentives to reward executives for demonstrating our expected behaviours in delivering business outcomes. This will have particular focus on client outcomes, risk management and first line accountability; and
- supporting the wider workforce through the cost-of-living challenges.

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.

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Directors' Remuneration Policy

Remuneration Policy for Executive Directors

Key principles of the Remuneration Policy for Executive Directors

The Remuneration Policy, which will take effect from the 24 May 2023 AGM, subject to shareholder approval, 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.

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.

Key principles underpinning the Policy are:

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 employees. Promoting a positive culture in which the 'how' as well as the 'what' is recognised and valued, with a focus on employees 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 sustainability 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.

Summary of proposed changes since last policy

The Committee reflected on how the Company had evolved over the past three years and has concluded that the Policy has generally proved well aligned to our strategy and the interests of key stakeholders, with strong alignment with governance and regulatory requirements and our values and culture. Changes have therefore consisted of a relatively small number of amendments, including minor drafting changes to improve clarity, to introduce some modest flexibility and to ensure the Policy allows for continued regulatory compliance; the removal of unnecessary upward discretion and exceptional provisions where these are no longer required; and a review of the shareholding requirement for the Chief Financial Officer in alignment with the above principles and with a view to evolving market practice across our peer group and investor expectations.

We have also reviewed the incentive scorecards for 2023 with a key focus on simplification and alignment to our strategy and purpose. More details on the scorecards is provided in the link to strategy and the 2023 implementation sections of the report on page 140 and 154-156 respectively.

The Committee did consider alternative models for delivering long-term incentives during the review, in the interest of simplification and strategic alignment. It was concluded that the current approach remained effective for aligning our executives to our current business strategy, with stretching financial and strategic objectives. This will be kept under review through the 3-year cycle of the Policy and if our conclusions change we will once again engage with shareholders.

These changes can be summarised as follows:

- Shareholding requirement for the Chief Financial Officer increased from 200% to 250% of salary to provide for more consistent market positioning and appropriate relativity to the Group Chief Executive Officer requirement, which remains at 300%;
- Removal of the legacy benefits provisions that applied to John Foley, the former Chief Executive, as these are no longer required, and the removal of the ability to provide a legacy defined benefit arrangement to executives;
- Removal of the exceptional limit for LTIP awards of up to 400% of salary in the year of hire, as the Committee does not consider this to be a necessary upward discretion given the level of the standard maximum entitlement (250% of salary) and the ability to buy-out forfeited awards for new appointments, where required; and
- Amendments extending the current criteria for applying malus and clawback.

Drafting has also been updated to improve clarity and to provide confirmation of applicable treatment on specific points, including;

- The addition of wording on the discretion that can be exercised by the Committee to apply an adjustment to formulaic outcomes where these are not aligned with shareholder and/or wider stakeholder experience, and confirming that any use of discretion will be disclosable;
- Clarification that buy-out awards will be subject to malus and clawback provisions; and
- Additionally, the Committee is mindful that it may become subject to the "extended" remuneration requirements under the Investment Firm Prudential Regime during the life of this Policy. We have drafted the Policy sufficiently flexibly to ensure compliance with the extended remuneration requirements if and when they apply to us. It is worth noting that there is also discretion to amend the Policy if any further changes are required to maintain compliance with updates to regulation.

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 amongst 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.
Benefit	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.
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.

Remuneration element	Strategic alignment and operation	Maximum opportunity	Performance measures
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.

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.

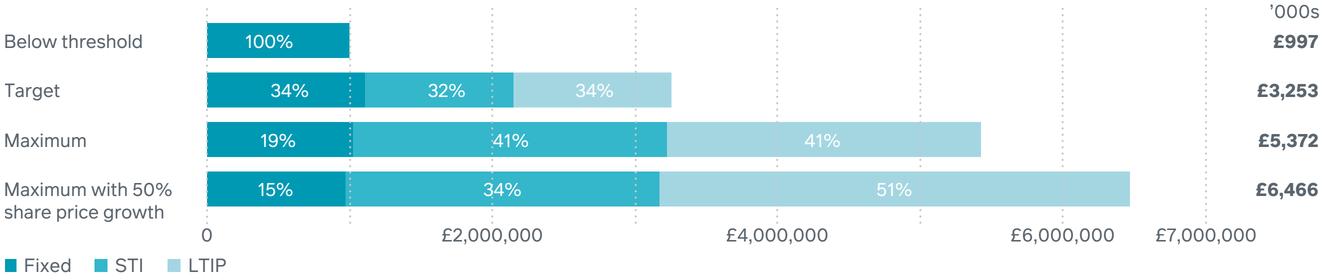
Remuneration regulations

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.

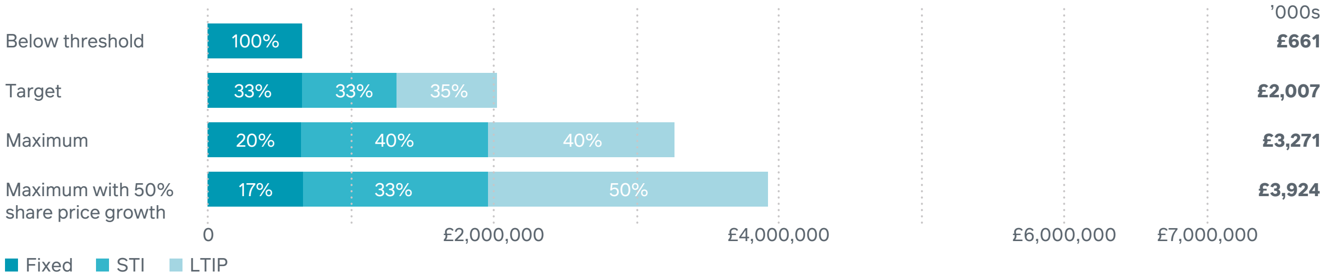
Scenario charts

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:

Group Chief Executive Officer



Chief Financial Officer



The performance scenarios incorporate the following assumptions:

Fixed remuneration	Comprising the 2023 base salary, benefits (based on the annualised 2022 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.

Remuneration arrangements throughout the Company

The Committee has taken careful consideration of remuneration arrangements for employees across the Company in determining the Remuneration Policy and its implementation, and considers carefully the impact of Board or management decisions on pay on the wider employee population. Formal consultation with employees has not taken place on the development of the Policy, but insight into arrangements and conditions for the wider workforce is achieved through a combination of management and employee feedback and an engagement plan of formal and informal activities.

A Remuneration Policy is in place for establishing standards for the design and operation of remuneration across the Company, which has consistent principles to the Directors' Remuneration Policy. Pension and benefit programmes are in place for all employees. Pension entitlement is aligned with that for the Executive Directors. The majority of benefits are also aligned.

All employees are eligible for STI annually, determined through a combination of Company and personal performance and subject to risk adjustment. LTIP awards are used for senior management roles across the Company. Employees are eligible to participate in all-employee share schemes and discounted products on the same terms as the Executive Directors. The Remuneration Committee will receive information on remuneration across the Company, including average salary increases, the design and outcomes of incentive plans and the Group Chief Executive Officer pay ratio, when determining the implementation of the Remuneration Policy for Executive Directors.

Consideration of shareholder views

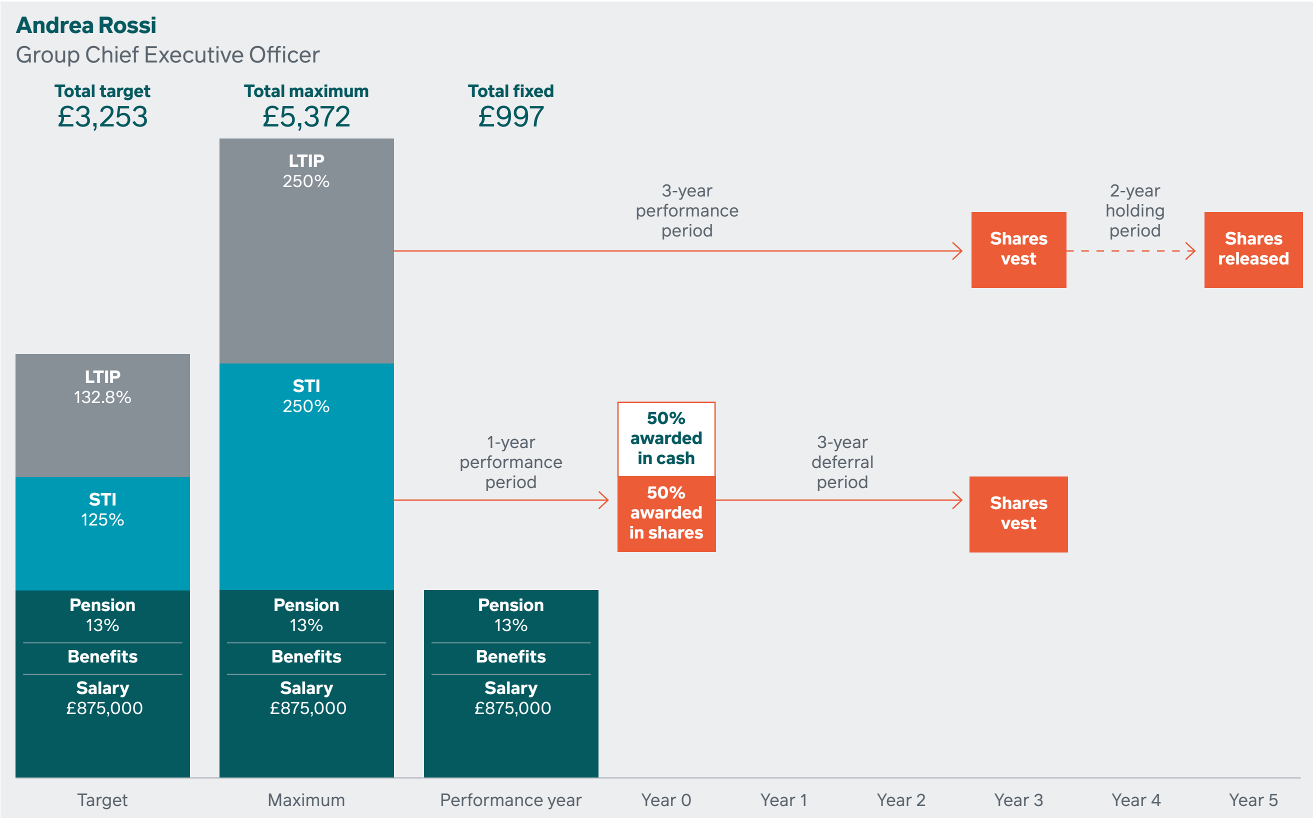
When setting the Remuneration Policy and determining remuneration, best practice guidelines issued by institutional shareholder bodies are taken into account. The Remuneration Committee has engaged with the largest shareholders and institutional shareholder bodies to understand their views on this Remuneration Policy. During this process we engaged with 21 of the Company's most significant investors, representing c.60% of the shareholder base. We received limited feedback on the Policy with shareholders generally comfortable with the terms and proposed amendments. There was general support for our approach to simplification of the incentive scorecards, with a smaller number of more focused measures. In the final proposals we have taken into account feedback received that measures should only be introduced if they can be underpinned with robust, transparent and quantifiable performance criteria. There was particular interest in the approach taken in considering windfall gains on the vesting of the 2020 LTIP, and on the rationale for the extent of the downward adjustment to the formulaic outcome. We believe that shareholders have welcomed the early and transparent engagement on this issue. We have endeavoured to respond to all feedback received and the Committee has been very mindful of this in finalising its decisions.

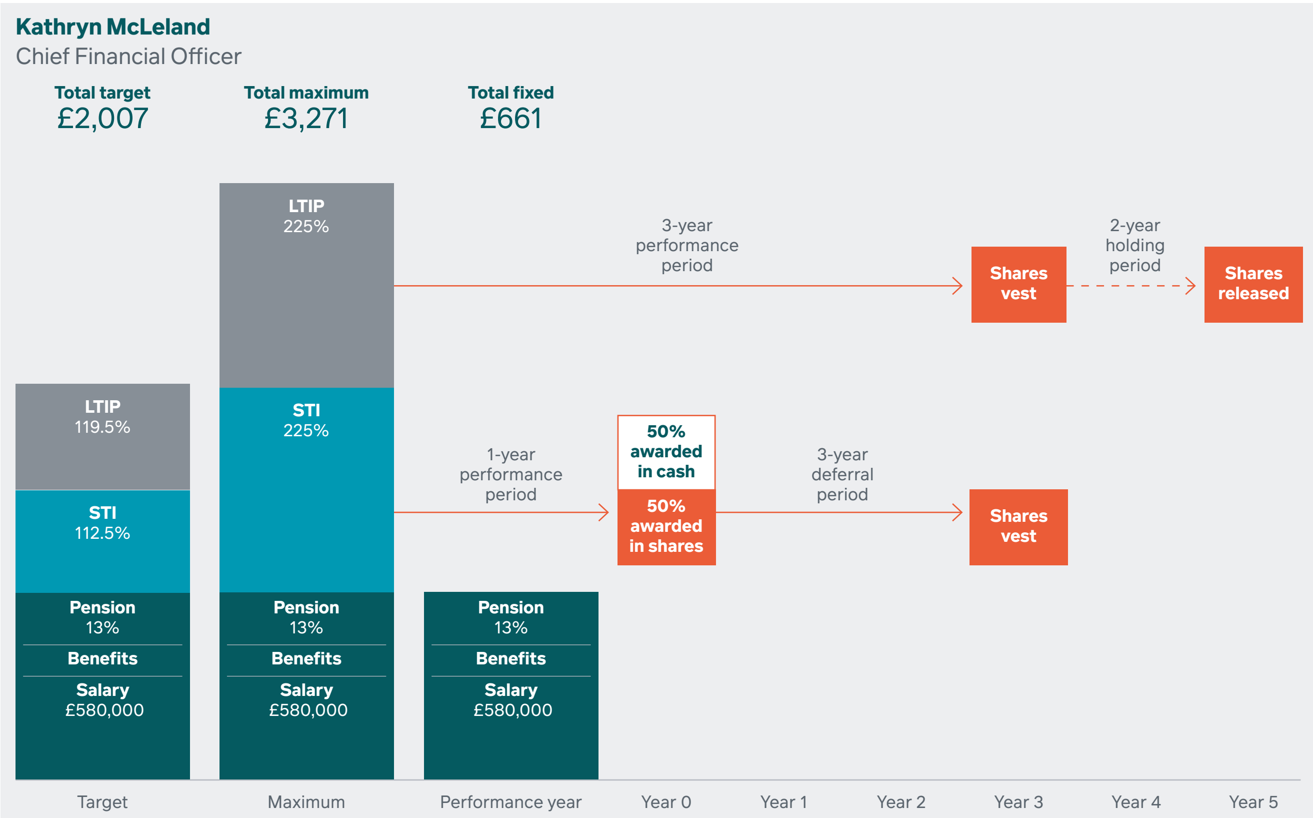
The Remuneration Committee will continue to monitor trends and changes in corporate governance to ensure remuneration at M&G plc remains appropriate and continue to engage with shareholders on the effectiveness of the Remuneration Policy.

Remuneration at a glance

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 (all 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.





Summary of the Directors' Remuneration Policy and 2023 implementation

References to the Policy in this section and the detailed implementation section of the report align with the proposed Policy to take effect from the 2023 AGM.

Remuneration element and time horizon	Policy summary	2023 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 2023 £	Salary on appointment 2022 £	% increase
Andrea Rossi	875,000	875,000	0%
Kathryn McLeland	580,000	580,000	0%
Wider workforce 2023 (UK budget)			5% (8% to 3.5% depending on salary, with no increases at senior levels)

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 spouse 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.

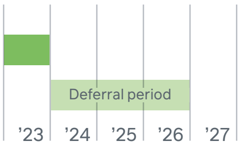
Performance

There are no performance measures.

	Contribution 2023	Contribution 2022
Andrea Rossi	13%	13%
Kathryn McLeland	13%	13%

Remuneration element and time horizon	Policy summary	2023 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

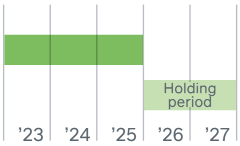
Performance scorecards comprise a combination of financial and non-financial measures aligned to the Company's strategic objectives and financial goals. Financial measures will normally comprise at least 50% of the scorecard.

2023 Implementation

Financial measures comprise 60% and non-financial measures 40% of the 2023 STI scorecard. Find out more on page 155. There were no changes to target and maximum STI opportunity as a % of base salary for 2023:

	Target STI % 2023	Maximum STI % 2023
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.

2023 Implementation

In 2023 financial measures consist of 50% cumulative operating capital generation and 25% relative TSR. Non-financial measures constitute 25% of the 2023 LTIP scorecard and are equally weighted across Gender, Ethnicity and Sustainability targets. Find out more on page 156.

There were no changes to maximum LTIP opportunity as a % of base salary for 2023:

	Maximum LTIP % 2023
Andrea Rossi	250%
Kathryn McLeland	225%

The term 'LTIP' refers to awards granted under the M&G Performance Share Plan.

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 2022, and that for John Foley as at 10 October 2022, the date upon which he stepped down from the Board.

Name	Guidelines	Shares as a % of salary
Andrea Rossi	300% of base salary	36.4%
Kathryn McLeland	250% of base salary	55.4%
John Foley	300% of base salary (as at 10 October 2022)	496.4%

2022 Performance outcomes

The performance scorecard for the 2022 STI was the same for all Executive Directors. Outcomes are included for John Foley in consideration of his role as Chief Executive up to 10 October 2022.

Taking into account a range of factors, the Committee was satisfied that no adjustments be applied to the formulaic STI outcomes for the Executive Directors.

With respect to the vesting of the 2020 LTIP, the Committee determined that a 10% downward adjustment to the formulaic outcome for the Executive Directors would be appropriate , taking account of the share price at which the award was granted (£1.135). Find out more about the rationale and the methodology applied in reaching this decision on page 143-144.

As Andrea Rossi and Kathryn McLeland commenced employment with the company in 2022, only John Foley, the former Chief Executive, is due to receive shares vesting under the 2020 LTIP.

The component and total outcomes of the scorecards were as follows, including comparison to prior year.

2022 STI – % of maximum opportunity

		Financial Measures	Non-Financial Measures	Overall STI Outcome
Andrea Rossi	2022	57.5%	34.6%	50.6%
	2021	n/a	n/a	n/a
Kathryn McLeland	2022	57.5%	34.6%	50.6%
	2021	n/a	n/a	n/a
John Foley	2022	57.5%	34.6%	50.6%
	2021	82.5%	41.4%	70.15%

2020 LTIP – % of maximum opportunity

		Cumulative total capital generation	TSR	Overall LTIP outcome
John Foley	2022 *(2020 LTIP)* – Formulaic outcome	95%	95%	95%
	Discretionary downward adjustment			10%
	Actual % shares vesting			85.5%
		Balanced scorecard of capital, conduct and people measures	TSR	Overall LTIP outcome
John Foley	2021 *(2019 LTIP)*	100%	36.8%	52.6%

Remuneration outcomes

The Executive Directors' 2022 single figure earnings are summarised below (with prior year for comparison included for John Foley):

		Fixed Remuneration £'000	STI £'000	LTIP £'000	Total (incl. "Other") £'000
2022	Andrea Rossi	229	255	–	484
2022	Kathryn McLeland	438	438	–	876
2022	John Foley	972	989	4,282	6,243
2021	John Foley	1,325	1,719	1,553	4,597

- Fixed remuneration includes salary, benefits and pension.
- STI includes both the cash and deferred elements of the STI awarded.
- LTIP denotes the estimated vesting proceeds from awards granted in 2020 for the performance period ending 31 December 2022 (and granted in 2019 for the 2021 value, which has been updated to reflect the actual share price at vesting).
- 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).
- John Foley stepped down from the Board and from his role as Chief Executive with effect from 10 October 2022. The single figure reflects earnings in respect of service up until this date. Fixed pay and STI represent values earned for 2022 up until 10 October 2022. The 2020 LTIP shows the value of the proportion of awards vesting with respect to the period 1 January 2020 to 10 October 2022. Further details on the remuneration arrangements for John Foley are outlined in the loss of office section on page 148.
- Additional details of the single figure methodology and incentive plan scorecards can be found in the Annual Report on remuneration from page 141.

Rationale for measures and link to strategy

During the triennial review of the Policy, the Committee considered alternative models for delivering long-term incentives, in the interest of simplification and strategic alignment. It was concluded that the current approach of a Short-Term Incentive (STI) and Performance-based LTIP remained effective for collectively aligning our executives to delivering our stretching financial targets and strategic transformation and ESG objectives. M&G is still a relatively new company, so a continuation of the plans will enable them to be further embedded with these objectives and our purpose, culture and values.

The incentive scorecards were subject to a comprehensive review in 2021. The primary focus was to ensure that they contained clear and measurable objectives across a broader range of key non-financial priorities. The Committee remains mindful that having an appropriate balance between what performance is delivered and how that performance is delivered is critical for the long-term success of the company and sustainable shareholder value creation, with key aspects of non-financial performance including the effectiveness of risk management, client experience and outcomes, conduct, culture, diversity and sustainability.

We concluded that the overall balance of measures is still appropriate, but became concerned that the number of measures that had evolved over time had resulted in undue complexity, diluting strategically important measures and compromising a simple/transparent link between performance and reward. We therefore focused on a simplification of the scorecards, utilising fewer measures that are considered critical for alignment to our strategy, culture, values and operational priorities, with a strong and consistent emphasis on the interests of our full range of stakeholders:

Clients	Client 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	Sustainability 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 3 years – Post-vesting holding and share ownership requirements for our senior executives

Performance measures

The 2023 incentive scorecards have fewer measures, with strong alignment to our financial, strategic and operational objectives, purpose and values. 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 2023 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.

With-Profit expense measures were removed for 2023 in order to rationalise and simplify the scorecard. The Committee was satisfied that there was still an appropriate focus on cost management and that policyholder experience was reflected through a With-Profit Fund investment performance measure.

The 2023 LTIP scorecard will have:

- 75% financial weighting (including TSR) comprising Operating Capital Generation (50%) and TSR ranking within a peer group (25%); and
- 25% non-financial weighting with ESG measures aligned to Diversity and Sustainability.

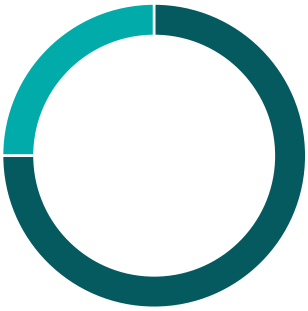
The Risk & Conduct measure has been removed for 2023 in order to simplify the scorecard and give more emphasis to ESG measures. The Committee has complete discretion to adjust incentive awards for risk and conduct issues at both plan and individual levels, so was satisfied that this did not compromise their ability to reflect such events and issues in award outcomes.

The performance conditions and weighting for 2023 are illustrated in the following table:

STI

Financial	60%
Operating capital generation	40%
Adjusted operating profit before tax	20%
Non-financial	40%
Clients	20%
Colleagues	10%
Risk and controls	10%

LTIP



Financial	75%
Cumulative operating capital generation	50%
Relative total shareholder return	25%
Non-financial	25%
Diversity (Gender)	8.33%
Diversity (Ethnicity)	8.33%
Sustainability	8.33%

2023 Financial measures

The financial measures in the scorecards are Key Performance Measures, aligned with the long-term performance of the business, external financial targets and shareholder experience. The Committee determined to keep the profit measure weighted at 20% for the 2023 STI and review the relative weighting of profit and capital in the scorecard in 2024 once the impacts from the adoption of IFRS 17 are embedded in our performance reporting.

Operating Capital Generation (short and long term incentive)

Operating capital generation (defined on page 157) is a key performance measure which demonstrates the longer-term view of the movements in our capital surplus. The Committee concluded to align both the STI and LTIP scorecards to operating capital generation as it provides continuity of target setting, aligns with our external targets and is reflective of performance that is within management's control to deliver.

Adjusted operating profit before tax (short-term incentive)

Adjusted operating profit before tax 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. Adjusted operating profit before tax is IFRS profit before tax excluding short-term fluctuations from investment returns, profit/(loss) on disposal of businesses and corporate transactions, restructuring and other costs, and amortisation and impairment of intangible assets acquired in business combinations.

Relative total shareholder return (long-term incentive)

A long-term measure that ensures direct alignment of remuneration outcomes to shareholder experience relative to a peer group. The peer group has been updated from a generic group of FTSE 100 financial services companies (which included companies not closely aligned to M&G, such as banks) to a selection of FTSE 350 sectoral peers selected based on objective criteria in terms of comparable size, business scope and geography. This revised peer group more closely aligns to M&G's core business activities (asset management, wealth management and/or life insurance) and geographic coverage. In addition, extending the peer group to include certain FTSE 350 companies reflects M&G's market cap position towards the lower end of the FTSE 100. The peer group from 2023 is as follows:

– 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

2023 Non-financial measures

Across the short and long-term incentive plans we have non-financial measures aligned to key strategic priorities and the purpose, culture and values of the business. These measures ensure that there is an appropriate balance between what performance has been delivered and how that performance has been delivered.

Client measures (short-term incentives)

Client measures that are key to the successful execution of our strategy, and understanding and delivering good client outcomes. The following measures are included:

- Retail and Savings 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 the colleague engagement survey, 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.

ESG measures (long-term incentives)

ESG measures aligned to our strategy and external commitments for diversity and own-emissions reduction. The introduction of an interim net zero asset manager measure is being kept under review by the Committee.

- Diversity (Gender) – target aligned to our external commitment to achieve 40% gender representation by the end of 2025;
- Diversity (Ethnicity) – target aligned to our external commitment to achieve 20% ethnicity representation by the end of 2025;
- Sustainability – an interim target aligned with progressing towards our external commitment to achieve a near term carbon emissions reduction of 46% by 2030.

Find out more about the 2023 scorecard measures in the implementation section of the report from page 154.

Link to strategy and purpose

The financial Key Performance Measures of adjusted operating profit and operating capital generation are primary indicators of the long-term performance of the business and delivering on our strategic priorities is integral to achieving our financial targets. 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 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 better understand and enable our clients, deliver high-value outcomes and act responsibly:

	Strategic priorities			
Metric	Maintain our financial strength	Simplify our business	Deliver profitable growth	Purpose
Operating capital generation	●	●	●	
Adjusted operating profit before tax	●	●	●	
Relative total shareholder return	●	●	●	●
Client measures		●	●	●
Colleague & Risk measures		●		●
ESG measures		●		●

Find out more about our strategy on pages 10-13

Annual Report on Remuneration

Single figure remuneration

In this section

Single figure total remuneration table (Audited)

The following table provides the 2022 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
2022	Andrea Rossi	201	2	26	229	255	–	255	484
2022	Kathryn McLeland	384	4	50	438	438	–	438	876
2022	John Foley	774	97	101	972	989	4, 282	5,271	6,243
2021	John Foley	980	218	127	1,325	1,719	1,553	3,272	4,597

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 an STI award based on their respective service periods in 2022.
- The 2022 single figure for John Foley reflects the period for which he served on the Board and as Chief Executive up until 10 October 2022. Fixed pay and STI represent values earned for 2022 up until 10 October 2022. The 2020 LTIP included in the 2022 single figure for John Foley shows the value of the proportion of the award vesting with respect to the period 1 January 2020 to 10 October 2022. Further details on the remuneration arrangements for John Foley are provided in the loss of office section on page 148.
- The price used to calculate the value of the M&G plc shares for the 2020 LTIP is £1.820 using an average of the closing price for the final three months of 2022. The actual share price and vesting value will be determined upon vesting.
- The 2019 LTIP vesting figures reported in the 2021 single figure now reflect the actual vesting price of the shares, which vested over two tranches on 4 April 2022 at £2.167 per share and on 27 June 2022 at £1.99 per share. The values previously included in the 2021 report were calculated using an average of the closing price for the final three months of 2021 (£1.9707).

Single figure remuneration – Base salary (Audited)

In 2022 the Committee approved a salary increase of 3% for John Foley. This was the first increase to apply since the package was reviewed in 2019 in anticipation of demerger from Prudential plc. The Committee considered the external market and the experience of the wider workforce, for which a 4% budget was applied in 2022. The spend was split between a 4.25% budget for the majority of the colleague population and 3% for those in senior management positions (with some variation in our international markets, where applicable).

The annual salaries of £875,000 for Andrea Rossi and £580,000 for Kathryn McLeland reflect the packages approved upon appointment.

Single figure remuneration – Benefits (Audited)

Benefits include the total value of all benefits provided in respect of the year ended 31 December 2022. For all Executive Directors these comprise life, disability and critical illness insurance, private medical cover and eligibility for health assessments.

In addition, and in accordance with the Remuneration Policy approved in 2020, John Foley retained a number of legacy taxable benefits offered as a Director of Prudential plc, comprising international healthcare, home security support and use of a car service, with values inclusive of tax paid by the Company.

With effect from 1 July 2021 the previous in house car service for John Foley was replaced with a fully outsourced arrangement, leading to the reduction in the cost of this benefit between 2021 and 2022. The Benefits costs for Andrea Rossi and Kathryn McLeland reflect their respective periods of employment over 2022, and for John Foley are pro-rated to reflect the period he served on the Board up until 10 October 2022.

	Andrea Rossi	Kathryn McLeland	John Foley	
	2022 £'000	**2022 £'000**	**2022 £'000**	2021 £'000
Healthcare and insurances	2	4	64	62
Car service	–	–	31	154
Security costs	–	–	2	2
Total	2	4	97	218

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 employees 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 2022 STI outcome, the Remuneration Committee assessed the performance of the Company and the individuals by reference to the 2022 STI scorecard, which included a combination of financial and non-financial measures, as follows:

2022 Executive Director STI scorecard outcome

	2022 STI Scorecard	Weighting	Threshold 0%	Target 50%	Maximum 100%	Actual	Outcome to maximum	Weighted Outcome
Financial	Adjusted operating profit before tax including restructuring costs (£m)	20%	383	451	518	382	0.0%	0.0%
Financial	Total capital generation excluding market movements (£m)	30%	387	456	524	828	100%	30.0%
Financial	With-profits renewal expense per policy (£)	5.0%	76.3	69.4	62.5	67.6	63%	3.15%
Financial	With-profits new business expense as % of flows	5.0%	2.12%	1.93%	1.74%	2.0%	32%	1.60%
Financial	With-Profits Fund investment performance (three-year)	3.33%	0%	1%	3%	7.0%	100%	3.33%
Financial	Investment performance of Wholesale Funds relative to benchmark (one and three-year)	3.33%	50%	60%	70%	50%	0.0%	0.0%
Financial	Investment performance of Institutional Funds relative to benchmark (one and three-year)	3.33%	50%	60%	70%	63%	65%	2.17%
Non-financial	Client NPS Score - Retail and Savings	5.0%	9	11	13	14	100%	5.0%
Non-financial	Client Trust Ranking - Asset Management	5.0%	6	4	2	5	25%	1.25%
Non-financial	Colleague – sustainable engagement index	10.0%	75	80	82	76	10%	1.0%
Non-financial	Risk and Controls – % high/very high assurance issues overdue at year-end	5.0%	10%	5%	0%	14%	0.0%	0.0%
Non-financial	Risk and Controls – % self-identified of total assurance issues raised	5.0%	50%	60%	80%	65%	63%	3.1%
	Total							50.6%

Definitions

Find out more about definitions and further details of the above measures on page 157.

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 for 2022. The STI amounts in the single figure table reflect awards to be delivered in 2023 in respect of 2022 performance, inclusive of both cash and deferred elements as follows:

Executive Director	Maximum STI Opportunity[i] £'000	Total STI Outcome £'000	Cash STI £'000	Deferred STI £'000
Andrea Rossi	503	254.8	127.4	127.4
Kathryn McLeland	865	437.7	218.9	218.9
John Foley	1,954	988.6	494.3	494.3

i The maximum opportunity values and outcomes reflect respective periods of service for each of the above Executive Directors over 2022.

Single figure remuneration – LTIP vesting in year (Audited)

The LTIP awards granted to John Foley in 2020 under the M&G Performance Share Plan will vest on the basis of performance measured at the end of 2022. Neither Andrea Rossi nor Kathryn McLeland had LTIP awards vesting in 2022.

2020 LTIP Scorecards

	Weighting	Measure	Period	Threshold	Target	Maximum	Actual	Vesting	Weighted Outcome
Vesting				0%	50%	100%			
Capital	60%	Cumulative total capital generation (£m)	1/1/20–31/12/22	1,850	2,150	2,450	2,420	95%	57%
Vesting				25%		100%			
Relative TSR	40%	Percentile ranking relative to peer group	1/1/20-31/12/22	50th p'cile		75th p'cile	73rd p'cile	95%	38%
Total (formulaic outcome)									95%
Downwards adjustment to the formulaic outcome									10%
Final outcome									85.5%

Notes to the LTIP scorecards

Cumulative total capital generation

Cumulative total capital generation is the total change in Solvency II surplus capital before dividends and capital movements over the period 1 January 2020 to 31 December 2022. See also the definitions table on page 157.

Relative Total Shareholder Return (TSR) outcome

For the 2020 LTIP M&G plc TSR was measured against a peer group constituted of the 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.

Exercise of Committee discretion to apply a downwards adjustment

The Committee recognised the need to undertake a thorough and robust assessment in considering the potential for windfall gains on the 2020 LTIP awards as a result of the £1.135 grant price in order to reach a decision that was fair and balanced, including both a formulaic/analytical assessment and the application of judgement. Careful consideration was given to evolving market practice, financial markets and business performance. In light of all of these relevant factors the Committee concluded that a downward adjustment of 10% be applied to the number of shares vesting after applying the outcome of the performance scorecard to the 2020 award.

This issue was of considerable interest to our shareholders and in consultation the majority of feedback focused on seeking clarification of the rationale for the methodology and decisions reached. The questions and feedback received through this shareholder engagement was a further important consideration for the Committee.

The key steps and reference points in reaching this adjustment were as follows:

Step 1: Baseline share price depression:

– As M&G had only listed in October 2019 the shareholder base was still going through transition from the original holders of Prudential plc shares during the first six months of listing. It was therefore not possible to reference meaningful historic trading data or a prior-year grant price to calculate the share price fall (which would have been a clear data point for consideration under common market practice).

- The Committee considered instead a range of alternative data points, including initial trading levels upon listing, contemporaneous forward analyst views and an independent valuation of the business (the latter two data points both received in Q1 2020, shortly before the grant). From this analysis it was determined that £1.90–£2.00 constituted a reasonable baseline share price.
- The extent of the initial recovery in the M&G share price from mid-2020 and subsequent trading levels gave the Committee additional assurance that this constituted a reasonable starting point.
- Based on this the Committee concluded a 40% share price fall to be a reasonable proxy, when compared to the grant price of £1.135.

Step 2: Independent advice/market intelligence

- The Committee considered external market practice in instances of a sharp pre-grant fall in share price. Although there was a range of practice it was found that companies had generally adjusted awards at grant by 30%-40% of the identified share price depression. Considering the level of subjectivity in determining the correct baseline for calculating the extent of the depression, this approach was considered to be an appropriate starting point before applying business performance considerations.
- Applying this 30%-40% factor to the initial share price depression led to a potential downward adjustment of 12%-16%.

Step 3: Business performance and judgement

- The Committee then considered business performance and value delivered to shareholders over the period as a result of management actions.
- The business had strong financial delivery during the three year performance period, delivering dividends in line with policy throughout, at the very top end of FTSE 100 levels. This contributed towards the creation of shareholder value of 10% relative to a pre-pandemic baseline (end-2019), above the FTSE 100 median (6% over the same period) and the median of FTSE 100 Financial Services peers (-2% over the same period).
- The business continued to deliver on its operational commitments, achieving its 3-year cost saving and capital generation targets one year ahead of schedule, as announced in the full-year 2021 results in March 2022. This was very positively received by the markets, with a c.15% increase in share price (versus the prior day close) on that day compared to a 0.2% share price fall across the FTSE 100.
- As a result, the Committee decided that it would be appropriate to exercise judgement to take this performance into consideration by applying a lower adjustment factor of 25% of the initial share price depression, resulting in a final recommended adjustment of 10%.

The Committee was satisfied that this represented a fair and balanced outcome when taking all relevant inputs into consideration.

Vesting of 2020 LTIP award shares

The table below shows the following information for the 2020 awards granted under the M&G Performance Share Plan that are due to vest in 2023, inclusive of the downward adjustment applied by the Committee:

- the original grant value of the awards and performance outcome;
- the number of shares under award at the vesting date including dividend equivalents that have accrued during the performance period and the number of shares vesting based on the performance outcome;
- the estimated value of the vesting shares using the average closing price for the final three months of 2022, £1.82; and
- the vesting value attributable to the accrual of dividend equivalents and share price growth over the performance period. This has been calculated as the difference between the grant value adjusted for performance outcome and the estimated vesting value.

	Grant value £'000	Formulaic performance outcome	Discretionary downward adjustment to formulaic outcome	% of shares vesting	Shares under award at vesting	Shares vesting	Estimated value of shares vesting £	Value attributable to share price movement £	Value attributable to dividend equivalents £
John Foley – April 2020 grant (full value)	2,450	95%	10%	85.5%	2,975,812	2,544,319	4,630,661	1,264,232	1,271,679
John Foley – April 2020 grant (pro-rated)		As above			2,751,286	2,352,811	4,282,117	1,169,075	1,175,961

The number of vesting shares and values are shown on both an actual and a pro-rated basis (1 January 2020 up to 10 October 2022, pro-rated over the 36 month performance period, reflecting the date John Foley stepped down from the Board). The pro-rated value of vesting shares (£4,282,117) is that shown in the single figure table on page 141.

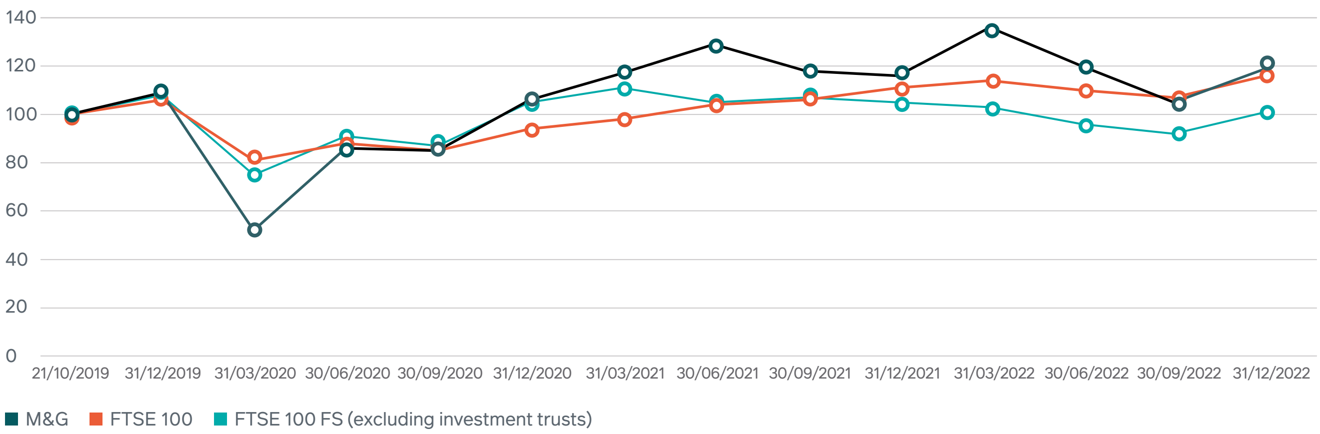
The number of shares under award at vesting (full value) includes 817,222 dividend equivalents.

Consideration of risk

The Committee received an independent review of the control environment and risk issues by the Chief Risk and Compliance Officer, as well as input from the Risk Committee and the subsidiary boards for PAC and MGG. The Committee noted the significant progress and the initiatives delivered in improving the risk and control environment, with the focus for 2023 on continued improvement on risk and control self-assessment and issue management. Taking the above into consideration, the Committee considered it appropriate to make no adjustments to the formulaic outcome of the 2022 STI, or any risk-related adjustments to the vesting of the 2020 LTIP (the rationale for the 10% adjustment relating to windfall gains is as noted in the section above) for the Executive Directors.

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 FTSE 100 and FTSE 100 financial services (excluding investment trusts) index constituents for the period beginning October 2019 and ending in December 2022. These comparators have been chosen as M&G plc is a member of the FTSE 100 index and the FTSE 100 financial services sector (excluding investment trusts) is used to measure relative TSR performance in the 2022 LTIP.



The following table sets out a breakdown of the Chief Executive's remuneration for the performance years 2019 to 2022 inclusive. For 2022 the figure is based on earnings as set out in the single figure table on page 141 for John Foley up to 10 October 2022 and for Andrea Rossi from that date. In respect of 2022 the LTIP as a % of maximum is applicable only to John Foley.

	2019 John Foley	2020 John Foley	2021 John Foley	**2022** John Foley/ Andrea Rossi
Total remuneration (£'000)	3,281	4,036	4,597	**6,727**
STI as % of maximum	64.3%	59.4%	70.15%	**50.6%**
LTIP as % of maximum	63.5%	59.6%	52.6%	**85.5%**

Non-Executive Director single figure total remuneration table (Audited)

The total remuneration for the full year ended 31 December 2022 for the Chair and each Non-Executive Director is detailed below:

	Fees for 2022 £'000	**2022 Total £'000**	Fees for 2021 £'000	2021 Total £'000
Edward Braham	422.5	424.5	n/a	n/a
Clive Adamson	250.0	250.0	250.0	250.0
Clare Chapman	120.9	120.9	104.1	104.1
Fiona Clutterbuck	216.6	216.6	451.6	451.6
Dev Sanyal	65.4	65.4	n/a	n/a
Clare Thompson	185.9	185.9	201.1	201.1
Massimo Tosato	290.0	290.0	271.3	271.3

Notes to the table:

- Edward Braham assumed the role of Chair with effect 14 March 2022 and the above 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 2022.
- Clive Adamson's fees include £110,000 for his roles on the PAC Board during 2022 (2021: £110,000).
- Clare Chapman stepped down from membership of the Risk Committee with effect 25 May 2022. Fees for 2021 reflect the 15 March 2021 date of joining the Board.
- Fiona Clutterbuck stepped down from the role of Interim Chair on 13 March 2022 and resumed the position of Senior Independent Director with effect 14 March 2022.
- Dev Sanyal joined the Board on 16 May 2022 and the table reflects fees from this date.
- Clare Thompson held the role of Senior Independent Director up until 13 March 2023. Her 2022 and 2021 fees also take account of her position as Chair of the IFDL Board, which she has held since 26 March 2021.
- Massimo Tosato's fees include £200,000 for his role of Chair of the MGG Board during 2022, (2021: £175,000).

Directors' share interests and other payments (Audited)

In this section

Awards granted in 2022 (Audited)

The following table provides the details of scheme interests awarded to the Executive Directors during 2022:

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
Performance Share Plan	Kathryn McLeland	Nil-cost options	% of Salary: 225%	16-June-22	16-June-25	1,305.0	643,808	6.25%
Deferred Incentive Plan	John Foley	Conditional awards	Deferred STI: 50%	01-Apr-22	01-Apr-25	859.3	385,186	n/a
Performance Share Plan	John Foley	Nil-cost options	% of Salary: 250%	01-Apr-22	01-Apr-25	2,523.5	1,131,107	6.25%

Notes on the scheme interests table:

Due to his employment start date of 10 October 2022, Andrea Rossi did not receive a share award in 2022.

Kathryn McLeland was granted an LTIP award at 225% of salary under the M&G Performance Share Plan on 16 June 2022, subject to the performance conditions set out in the table below. The award has a vesting date of 16 June 2025 and is subject to a further two-year holding period. Kathryn McLeland was not eligible to receive an STI award in respect of 2021 and did not therefore receive a related deferred award.

The former Chief Executive John Foley received a deferred STI award of M&G plc shares on 1 April 2022 in respect of his 2021 STI. The face value of the award was based on a deferral rate of 50%, in accordance with the Directors' Remuneration Policy.

John Foley also received an LTIP award under the M&G plc Performance Share Plan on 1 April 2022, subject to performance conditions (as described in the table below), with a vesting date of 1 April 2025 and subject to a further two-year holding period. At grant the award was 250% of base salary.

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, being £2.231 for the awards granted in April 2022 and £2.027 for the award granted in June 2022.

Performance conditions for LTIP awards granted in 2022

	Weighting	Threshold	Target	Maximum
Vesting		**0%**	**50%**	**100%**
Cumulative operating capital generation (£m)	50%	2,108	2,480	2,852
Risk and Conduct	10%	See definitions table on page 157		
Diversity	7.5%	36.0%	38.0%	40.0%
Sustainability – own emissions reduction (from 2019 baseline)	7.5%	18.4%	21.0%	23.6%
Vesting		**25%**		**100%**
Relative TSR	25%	50th p'cile		75th p'cile

Definitions

Definitions for the above measures are provided on page 157.

Measurement and vesting

All performance conditions have straight-line vesting between points and are measured over the three-year period 1 January 2022 to 31 December 2024.

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 and 100% vesting for achieving upper quartile or above with straight-line interpolation between these points. The peer group consists of FTSE 100 financial services companies (excluding investment trusts).

Directors' share interests (Audited)

The following table shows the interests that each Director and their connected persons had in M&G plc shares at 31 December 2022. 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. Where granted in the form of conditional awards (as applies to the legacy Prudential LTIP) these are held after the sale of sufficient shares to cover the tax due upon vesting. Both fully owned shares and vested conditional awards subject to the holding period 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 2022, which was £1.820.

Name	Shares owned outright (Includes vested conditional awards subject to 2-year holding)	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	175,000	–	–	–	175,000	£318,500	36%
Kathryn McLeland	176,620	–	–	666,243	842,863	£1,534,011	264%
John Foley (as at 10 October 2022)	1,995,123	1,261	1,427,599	5,479,047	8,903,030	£16,203,515	1,605%
Edward Braham	135,150	–	–	–	135,150	£245,973	n/a
Clive Adamson	9,100	–	–	–	9,100	£16,562	n/a
Clare Chapman	–	–	–	–	–	–	n/a
Fiona Clutterbuck	15,920	–	–	–	15,920	£28,974	n/a
Dev Sanyal	–	–	–	–	–	–	n/a
Clare Thompson	22,100	–	–	–	22,100	£40,222	n/a
Massimo Tosato	274,900	–	–	–	274,900	£500,318	n/a

There were no changes to the Directors' interests in ordinary shares between 31 December 2022 and 3 March 2023.

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).

Name	Guidelines	Shares as a % of salary
Andrea Rossi	300% of base salary	36%
Kathryn McLeland	250% of base salary	55%
John Foley	300% of base salary	496%

Holdings as a percentage of salary are shown for Andrea Rossi and Kathryn McLeland as at 31 December 2022, and for John Foley as at 10 October 2022, the date upon which he stepped down from the Board. Shares counting towards the holding requirement are shares owned outright, vested conditional awards subject to a holding period and unvested awards (deferred STI) that do not have performance conditions on a net-of-tax basis.

Payments to past directors (Audited)

No payments have been made to past directors.

Payments for loss of office (Audited)

The Company announced John Foley's intention to retire on 27 April 2022. He stepped down from the Board on 10 October 2022, but will remain employed until the end of his notice period on 27 April 2023. Salary, pension and benefits continue until the end of his notice period.

John Foley's remuneration for the period he was an Executive Director up to 10 October 2022 is shown in the Single figure table on page 141.

John Foley continued to work up to 31 December 2022 to provide support and ensure an orderly transition of his Board, management and regulatory responsibilities to Andrea Rossi. He retained entitlement to an STI award for this period. The total remuneration received for the period 10 October – 31 December 2022 was salary of £227.9k, benefits and pension of £52k and an STI Award of £288k. The STI outcome was calculated in line with the 2022 framework for Executive Directors. In making its determination, the Committee was satisfied that John Foley had completed all transition objectives in line with expectations and that the formulaic outcome of the STI award at 50.6% of the maximum opportunity was appropriate. 50% of the award will be deferred in shares for 3 years. The pro-rated value of the 2020 LTIP award vesting in April 2023 ascribed to the period 10 October to 31 December 2022 is £348.5k, calculated on an assumed share price of £1.82 as described in the notes to the single figure.

For the remaining period of employment from 1 January 2023, John Foley will be entitled to salary, pension and benefits only. He will not receive an LTIP award in 2023.

The Committee has determined that John Foley be accorded good leaver treatment in respect of his outstanding awards in light of his confirmation of his intention to retire. His outstanding deferred Short-Term Incentive (STI) awards will be released on the original timetable, subject to malus and clawback provisions. Outstanding long-term incentive awards will be pro-rated to the end of his employment and will vest in line with the original vesting dates, subject to satisfaction of the performance conditions. All awards will remain subject to malus and clawback provisions. A summary of unvested share awards at the date he stepped down from the Board is provided in the Directors' share interest table on page 147 and his shareholding will be subject to the share ownership guideline (300% of his current salary) for a period of two years post-employment. He will not receive any payments for loss of office other than a capped contribution towards legal fees.

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 the Board and Group Executive Committee discussed employee survey results to identify areas for improvement and received feedback on Employee Voice sessions. The Board held an interactive session with the Colleague Forum; executive remuneration was not specifically discussed, but a wide number of topics were covered, including the impact of the current cost of living challenges on colleagues. In addition seven Employee Voice sessions were held between M&G colleagues and members of the Board, allowing the Chair and other Board members to better understand some of the issues and challenges that colleagues face in respective parts of the business, as well as to hear what is working well and what could be improved.

The Board and senior management have been very mindful of the external environment and management held extensive and in depth conversations with our Colleague Forum and UNITE union representatives in the UK to obtain their views on the most effective and impactful response. In addition to targeting the April 2023 salary budget towards junior and mid-level roles, as described below, a one-off payment of £1,200 was made to colleagues in the UK in October 2022 earning under £50,000, and €1,200 to colleagues in the rest of Europe with salaries lower than €60,000. A further one-time payment will be made in May 2023 to UK colleagues earning less than the full-time equivalent of £75,000, in recognition of the continuing high-inflation environment and its impact on household budgets.

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. In 2022 a 4% budget was applied, with 3% available for senior colleagues and 4.25% for the wider UK workforce. For 2023 the overall UK budget of 5.1% was heavily weighted to recognise the prevailing specific cost of living challenges. A graduated approach was applied, beginning with a budget of 8% for colleagues earning under £75,000 and with no increases for those at more senior levels. Budgets across our international locations are determined on the basis of local market conditions and the same principle of targeting spend towards junior and mid-level roles has been applied.
Pension	Across the Company all colleagues are eligible to participate in a pension scheme, 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 the Executive Directors. Certain UK colleagues have retained the right to accrue benefits under defined benefit schemes, which are closed to new entrants (the Executive Directors are not 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. In addition health and well-being offerings are kept under continual review and in 2023 colleagues in the UK and India, the two largest markets in terms of headcount, will be provided with access to the Nudge financial wellbeing platform.
Short-Term Incentive Plans (STI)	All colleagues are eligible to participate in an STI plan with outcomes closely aligned with Group 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 majority of the Group Executive Committee participate in the performance-based share plan aligned with that disclosed for the Executive Directors, with other senior management and executives engaged in a control function participating in a non-performance based share award. Eligibility to participate is assessed annually.
All-colleague share plans	All colleagues have an opportunity to participate in one or more of our all-colleague share plans to drive alignment and share in the overall long-term success of the Company. In the UK all colleagues are eligible 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 all 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 2022 full year remuneration then calculated on a basis consistent with the single figure methodology.

For the 2022 report we are, as per the reporting requirements, showing the ratio calculated against the combined salaries and total compensation for Andrea Rossi, the incoming Group Chief Executive Officer, and the previous incumbent John Foley, as provided in the single figure table on page 141.

	Year	Method	25th percentile	Median	75th percentile
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
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

The company finalised the identification and calculations for the applicable colleagues at the 25th, 50th and 75th percentiles effective 31 December 2022, subject to confirmation on 23 February 2023 of the final respective 2022 STI outcomes following the close of the compensation review. The Remuneration Committee is satisfied that using this population and methodology delivers a representative Group Chief Executive Officer pay ratio relative to the general employee workforce. The changes in the ratio from 2021 are a factor of:

- The salaries at the representative quartiles each show some increase since the 2021 figures and are factors of increases applied over the year and the on-going change in the population mix in light of restructuring and acquisitions. The Group Chief Executive Officer salary figure over 2022 has decreased slightly with the new incumbent, Andrea Rossi, joining the company on a lower salary than that of John Foley. There has therefore been a slight decrease in the median salary pay ratio.
- The total remuneration pay gap at median has increased from 52:1 to 77:1. Notwithstanding that the overall compensation opportunity for Andrea Rossi is lower than that of John Foley, and that the STI award is vesting at a lower level (50.6% versus 70.15% for 2021), the main driver for the increase in pay gap is the value of the 2020 LTIP for John Foley. The LTIP applies to only a small senior proportion of the population, and is vesting at 85.5% compared to 52.6% in the 2021 single figure, with values also impacted by strong dividend and share price performance since grant.

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. These were identified using the gender pay gap data that is based on a rigorous and detailed analysis of the entire UK population as at April 2022.

A number of checks were then run to ensure that the individuals identified remained representative of the UK workforce as at the end of the year, and additional separate analyses were run on aggregate employee compensation data to check that outcomes were broadly in line with those in the table below. Salary and total remuneration figures for the individuals concerned are based on actual remuneration with no estimates or assumptions made. Based on this the company is satisfied that the quartile positions below are reasonably representative of the overall workforce position.

	25th percentile £	50th percentile £	75th percentile £
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
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

Directors vs average employee pay

	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
John Foley	(20.8%)	(55.6%)	(42.5%)	0.0%	(32.0%)	18.1%	8.4%	3.5%	11.7%
Clive Adamson	0%	–	–	1.6%	–	–	38.6%	–	–
Clare Chapman	16.2%	–	–	–	–	–	–	–	–
Fiona Clutterbuck	(52.4%)	–	–	1037.5%	–	–	–	–	–
Clare Thompson	(7.6%)	–	–	32.3%	–	–	12.6%	–	–
Massimo Tosato	6.9%	–	–	36.5%	–	–	–	–	–
UK workforce	7.85%	6.8%	9.4%	5.8%	3.4%	36.2%	3.3%	13.4%	70.4%

Notes to the 2022 to 2021 figures

- The percentage changes for the Directors between 2022 and 2021 have been based on the single figure tables on pages 141 and 145.
- John Foley received a 3% increase to base salary in April 2022; however as his salary reflects service up to 10 October 2022 the table above shows a decrease versus the value for the prior year. John Foley's benefits and STI outcome reduced on a full year annualised basis as well as on the pro-rated period used for the above calculations as a result both of the removal of the in-house car service during 2021 and of the lower STI vesting outcome for 2022 compared to 2021 (50.6% as compared to 70.15%).
- Andrea Rossi, Kathryn McLeland, Edward Braham and Dev Sanyal joined the Board over the course of 2022 and are therefore not included in the above table as comparative remuneration data is not available.
- The 2021 percentage change rate has been restated for Fiona Clutterbuck and Massimo Tosato to reflect updated methodology - the previous year table was based on annualised fees, taking into account respective start dates over 2020 (9 October 2020 for Fiona Clutterbuck and 1 April 2020 for Massimo Tosato), whereas for this year rates of change for all Directors are calculated on actual fees received over the year without any annualisation, providing a clearer link to the value of fees received as set out on page 145.
- Clare Chapman joined the Board on 15 March 2021 and the increase largely reflects full year versus partial year fees, noting in addition that she stepped down from the Risk Committee with effect 25 May 2022.
- Fiona Clutterbuck stepped down from her role as Interim Chair on 13 March 2022 and resumed the position of Senior Independent Director on 14 March 2022, which had been covered by Clare Thompson on an interim basis.
- The increase for Massimo Tosato reflects the uplift as disclosed in the 2021 report for his role as Chair of the MGG Board, effective 1 October 2021.
- Only the Executive Directors are employees of M&G plc and therefore 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 2022 salary review for the UK was managed to an overall budget of 4%, with 3% for senior employees and 4.25% for those at middle and junior levels. The full-year overall percentage change of 7.85% reflects the impact both of the annual salary review and of specific adjustments for individual employees over the course of the year to align to market or to recognise changes in role scope and responsibilities. Salary increases were calculated on a full time equivalent basis 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.
  - Although the 2022 STI scorecard outcome was lower than that of 2021, on an individual level the average outcome shows an increase of 9.4% across the population, reflecting the impact of salary increases and targeted remuneration reviews over the year, and of outcomes across other incentive plans that apply to the broader population.

Gender/Ethnicity pay gap

The Group will disclose its gender pay gap reports for 2022 for each UK employing entity where there are more than 250 people. M&G plc has five separate employing entities that meet this criteria. However, as shown below, we have calculated a combined set of figures for the Group that we believe provides a more meaningful view of our organisation's gender pay gap. Individual entity gender pay gap data will be available from our website later in 2023. The 2021 gender pay gap data is also shown for comparison.

Year	Mean pay gap	Median pay gap	Mean bonus gap	Median bonus gap
2022	29.2%	23.8%	67.5%	50.1%
2021	29.3%	26.1%	69.3%	49.0%

While our mean pay gap showed a slight decrease from 29.3% to 29.2%, our mean bonus gap continues a year on year improvement from 69.3% to 67.5% in 2022. These pay gaps are larger than we would like them to be and are primarily driven by the shape of our organisation with a higher proportion of men in senior roles compared to women.

Ethnicity pay gap

M&G plc will also voluntarily disclose its ethnicity pay gap data for the third consecutive year in support of our position to improve not only gender representation but also ethnic diversity in senior leadership roles. We are, as shown below, reporting ethnicity data for the Group in alignment with our gender pay gap reporting methodology. The complete M&G plc ethnicity pay gap report will be available from our website later in 2023.

Year	Mean pay gap	Median pay gap	Mean bonus gap	Median bonus gap
2022	5.5%	(7%)	36.1%	(0.9%)
2021	5.7%	(11.2%)	34.0%	2.6%

Find out more on diversity and inclusion in the Our colleagues section of the report from page 48.

How we calculate our pay gaps

The mean gender pay gap is a calculation of the average hourly pay or bonus of a man versus the average hourly pay or bonus of a woman and includes all relevant payments and allowances indicated in the gender pay regulations. The median gap is determined by ranking the pay for each man from lowest to highest to determine the mid-point and comparing this to the equivalent mid-point for a woman. Pay quartiles are calculated by ranking the pay for each employee from lowest to highest. This list is then divided into four equally sized segments and the proportion of men and women in these segments are reported (pay quartiles are also calculated and reported within our publicly disclosed gender pay gap reports). The M&G plc ethnicity pay gap report follows the methodology described in the gender pay gap legislation for our Caucasian population versus our combined Black, Asian and minority ethnic population within the UK.

M&G plc is committed to achieving year-on-year improvement in the representation of gender and ethnicity in senior leadership roles with goals of 40% women and 20% ethnicity by 2025. These goals, which define our commitments to the Hampton Alexander Review, HM Treasury Women in Finance Charter, 30% Club and the Race at Work Charter, will be underpinned by a range of initiatives that will fundamentally shift the way M&G plc recruits, retains and progresses colleagues through their careers. We recognise that it will take some time to reduce our gender pay gap and, as with greater gender balance in senior leadership, improving the gender balance in senior investment professional roles is key to our goal of positive year-on-year improvement in the pay gap.

Relative importance of spend on pay

The following table shows the relative importance of spend on pay in 2022 compared to shareholder dividends, adjusted operating profit before tax and total 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 142. Also shown is the total consideration, including transaction costs and stamp duty, in relation to the share buy-back programme which ran over 2022.

£m	**2022**	2021	% change
Spend on pay	**955**	872	9.5%
Shareholder dividends	**465**	466	(0.2%)
Share buy-backs	**503**	n/a	n/a
Adjusted operating profit before tax	**529**	721	(26.6%)
Total capital generation	**(397)**	1,822	(121.8%)

Statement of implementation of Remuneration Policy in 2023

In this section

Appointment of the Group Chief Executive Officer

Andrea Rossi joined the M&G Board on 10 October 2022 as Group Chief Executive Officer. In determining the remuneration arrangements the Committee took into consideration Andrea's experience and expertise, the external market and our Remuneration Policy.

The remuneration package comprises:

- Base salary of £875,000;
- Pension contribution of 13% of salary, in line with the maximum pension rate applicable to the wider workforce, receivable in part or in full in cash;
- Benefits in line with policy;
- STI target of 125% and maximum of 250% of salary, with 50% delivered in cash and 50% deferred into shares for three years. Eligibility has been pro-rated to the appointment date for the 2022 performance year; and
- Eligibility to participate in the Company Long-Term Incentive Plan with a maximum annual share award of 250% of base salary, with three-year vesting subject to applicable performance conditions and a further two-year holding period for vested shares. The first award will be granted in 2023.

There are no other awards or payments connected with Andrea's appointment.

2023 Salary review

In line with the annual salary review budget guidelines for 2023 no increase has been applied to either the Group Chief Executive Officer or the Chief Financial Officer salaries.

Year	Salary	Salary Increase
Andrea Rossi	875,000	0%
Kathryn McLeland	580,000	0%

Benefits

The Policy provides flexibility to ensure that benefit packages are competitive in order to attract and retain executives of the appropriate calibre. Through recent executive recruitment processes, it has become apparent that a proportionate international healthcare option would align with attracting executives with the necessary skills and experience to drive our international growth ambitions. The Committee has determined that international cover would only be provided where there is a genuine business need and the executive will be liable for the tax due on the provision of the benefit. Although there will be some benefit cost increase when international cover is provided, it will remain within a reasonable market range.

Incentive measure changes 2023

The 2023 incentive scorecards have fewer measures, with strong alignment to our financial, strategic and operational objectives, purpose and values. 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 2023 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/controls.

With-Profit expense measures were removed for 2023 in order to rationalise and simplify the scorecard. The Committee was satisfied that there was still an appropriate focus on cost management and that policyholder experience was reflected through a With-Profit Fund investment performance measure.

The 2023 LTIP scorecard will have:

- 75% financial weighting (including TSR) comprising Operating Capital Generation (50%) and TSR ranking within a peer group (25%); and
- 25% non-financial weighting with ESG measures aligned to Diversity and Sustainability.

The Risk & Conduct measure has been removed for 2023 in order to simplify the scorecard and give more emphasis to ESG measures. The Committee has complete discretion to adjust incentive awards for risk and conduct issues at both plan and individual levels, so was satisfied that this did not compromise their ability to reflect such events and issues in award outcomes.

2023 Short-term incentive

- The maximum STI opportunity for our Executive Directors in 2023 is unchanged from 2022.
- Group Chief Executive Officer – 250%
- Chief Financial Officer – 225%

The following table sets out the 2023 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 2023 Annual Report on Remuneration, reflecting the associated commercial sensitivity. All measures have quantifiable targets and processes in place to enable accurate assessment.

	Metrics	Weighting
Financial metrics	Adjusted operating profit before tax	20%
	Operating capital generation	40%
Non-financial metrics	Client	20%
	Colleague	10%
	Risk and controls	10%

Definitions

Measure	Additional information
Adjusted operating profit	See the definitions section on page 157
Operating capital generation	See the definitions section on page 157
Clients	Retail and Savings 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. For 2023 the investment performance measures have been re-categorised from the Financial to the Non-Financial section of the scorecard, as they represent the most over-arching indicator of client outcome and experience, and are not a headline company financial measure in the same way as profit or capital generation.
Colleagues	The sustainable engagement index outcome from the colleague engagement survey, 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.

2023 Long-term incentive

- The maximum LTIP awards for our Executive Directors in 2023 are unchanged from 2022.
- Group Chief Executive Officer – 250%
- Chief Financial Officer – 225%

The table below shows the 2023 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%
Operating capital generation (£m)	50%	2,327	2,738	3,149
Diversity - Gender	8.33%	38.0%	40.0%	42.0%
Diversity - Ethnicity	8.33%	16.0%	20.0%	22.0%
Sustainability – own operations emissions reduction (from 2019 baseline)	8.33%	22.1%	25.2%	28.4%
Vesting		25%		100%
Relative TSR ranking	25%	50th p'cile		75th p'cile

Definitions for the above measures are provided on page 157. Performance conditions have straight-line vesting between points and are measured over the three-year period 1 January 2022 to 31 December 2024.

Relative TSR ranking:

The peer group has been updated from a generic group of FTSE 100 financial services companies (which included companies not closely aligned to M&G, such as banks) to a selection of FTSE 350 sectoral peers selected based on objective criteria in terms of comparable size, business scope and geography. This revised peer group more closely aligns to M&G's core business activities (asset management, wealth management and/or life insurance) and geographic coverage. In addition, extending the peer group to include certain FTSE 350 companies reflects M&G's market cap position towards the lower end of the FTSE 100. The peer group from 2023 is as follows:

– 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

Non-Executive Director remuneration

The fee structure applicable to the Non-Executive Directors in 2023 is detailed in the table below.

£'000	2023 fees	2022 fees
Chair	525	525
Non-Executive Director basic annual fee	75	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	15
Members of the Nominations Committee	10	10

The Chair fee of £525,000 relates to the appointment of Edward Braham, the fee having previously been £450,000. The fees for membership of the Audit, Remuneration and Risk Committees were increased with effect from 1 January 2023 from £15,000 to £17,500 in recognition of the requirements of the role, market benchmarking and external independent advice. No other changes were applied to the Non-Executive Director fee structure.

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	Adjusted operating profit before tax 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. Adjusted operating profit before tax is IFRS profit before tax excluding short-term fluctuations from investment returns, profit/(loss) on disposal of businesses and corporate transactions, restructuring and other costs, and amortisation and impairment of intangible assets acquired in business combinations. The adjusted operating profit methodology is described in Note 3.2 on page 215.
Capital Generation	Total capital generation	Surplus capital is the amount by which own funds exceed the Solvency Capital Requirement (SCR) under Solvency II. Total capital generation is the total change in Solvency II surplus capital before dividends and capital movements, and capital generated from discontinued operations.
	Operating capital generation	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.
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.
With-Profits Fund expense management	With-profits renewal expense per policy	Represents the renewal expenses, including associated restructuring costs, incurred by the With-Profits Fund on a per-policy basis.
	With-profits new business expense as % of flows	Represents new business expenses, including associated restructuring costs, incurred by the With-Profits Fund as a proportion of new business flows and restructuring costs.
Non-Financial		
Client	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 Retail and Savings business: 6-month rolling average relative to a target and performance range.
	Trust Ranking	Applies to the Asset Management business: Client trust ranking relative to competitors.
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.
Sustainability	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, and relate to % high/very high issues outstanding at year end and % self identified of total high/very high issues raised (assurance issues for the 2022 STI and all issues for the 2023 STI). 2020 and 2021 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 and practices for the Group.
- Remuneration: determining the design, implementation and operation of remuneration arrangements for the Chair of the Board, 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), Fiona Clutterbuck, Clare Thompson and Massimo Tosato. The Committee met twelve times during 2022 and full details of Committee member attendance can be found on page 100 of the Governance Report. Other attendees during 2022 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 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 2022	Q2 2022
– Salary review and incentive outcomes for the executives and broader workforce – Performance outcomes of 2021 STI and 2019 LTIP awards – Performance measures and targets for 2022 incentive plans – Completion and disclosure of the 2021 Annual Remuneration Report – 2022 individual performance objectives for the executives	– Annual share grants for STI deferrals and LTIP awards – AGM – Review of 2023 Directors' Remuneration Policy – Remuneration arrangements for executive appointments – Review and approval of retirement terms for John Foley
Q3 2022	**Q4 2022**
– Review of 2023 Directors' Remuneration Policy – Incentive plan forecasts and planning – Remuneration arrangements for executive appointments	– Review of 2023 Directors' Remuneration Policy – Engagement with shareholders and regulatory authorities on the proposed 2023 Directors' Remuneration Policy, on the vesting of the 2020 LTIP and incentive arrangements for 2023 – Incentive plan forecasts and performance measures and targets for 2023 incentive plans – 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 services, finance and accounting and cyber strategy.

Key areas of advice provided to the Committee by Deloitte were the 2023 Directors' Remuneration Policy review, the 2022 Directors Remuneration Report, 2023 incentive structures and measures, remuneration arrangements for Executive Directors and the Executive Committee and regulatory advice.

The total fees for 2022 charged by Deloitte were £164,475.

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 ESG 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.

Voting outcomes at the Annual General Meeting (AGM) 2022

The following table provides the voting outcomes at the May 2022 AGM for the 2021 Annual Remuneration Report and the Directors' Remuneration Policy approved by shareholders at the 2020 AGM.

Voting Item	For	Against	Abstain[i]
Remuneration Policy	94.86%	5.14%	
	1,778,648,117 votes	96,342,690 votes	28,544,261 votes
2021 Remuneration Report	93.94%	6.06%	
	1,739,580,756 votes	112,132,368 votes	3,250,913 votes

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 2022 M&G plc's standing against these dilution limits was:

- 2.02% (2021: 1.13%) where the guideline is no more than 5% in any 10 years under all discretionary share plans.
- 2.90% (2021: 2.01%) 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 94-96 of the Annual Report.

The Directors' Remuneration report was approved by the Board on 8 March 2023.

Clare Chapman
Remuneration Committee Chair
9 March 2023

Directors' Report

The Directors present their Report for the financial year ended 31 December 2022. The Strategic Report and the Governance Report are incorporated by reference into the Directors' Report as noted in the index on page 163. In addition, the risk factors set out on pages 60 to 67, the additional unaudited financial information set out on pages 318 to 329 and the Shareholder Information section on page 331 are incorporated by reference in the Directors' Report. In accordance with the UK Financial Conduct Authority's Listing Rules (LR 9.8.4C), the information to be included in the Annual Report and Accounts, where applicable, under LR 9.8.4, is set out 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 94 to 96. The Directors who served during 2022 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	
John Foley	2 July 2018	10 October 2022
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	

Strategic Report

The Strategic Report on pages 2 to 91 is incorporated by reference and shall be deemed to form part of this Directors' Report.

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.

Share capital

Issued share capital

The issued share capital as at 31 December 2022 consisted of 2,374,712,121 ordinary shares of 5 pence each, all fully paid up and listed on the London Stock Exchange. At 31 December 2022, the Company held 26,867,908 ordinary shares in Treasury. Accordingly, at 31 December 2022, the total number of voting rights in the Company was 2,347,844,213.

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 3 March 2023, Trustees held 2.44% 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 137 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 2023 AGM.

Authority to purchase own shares

The Directors require authority from shareholders in relation to the purchase of the Company's own shares. M&G plc will seek authority by special resolution on an annual basis for the buy-back of its own shares in accordance with the relevant provisions of the Companies Act 2006 and other related guidance. A special resolution will be put to shareholders at the 2023 AGM. The Company announced on 24 March 2022 a £500m share buy-back programme in order to reduce the share capital of the Company, which completed in October 2022. Under the share buy-back programme, the Company repurchased 252,062,653 ordinary shares of £0.05 each.

Major shareholders

The table below shows the holdings of major shareholders in the Company's issued ordinary share capital, as at 31 December 2022, as notified and disclosed to the Company in accordance with the Disclosure Guidance and Transparency Rules. 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	4.16%
Norges Bank	4.01%
Schroders plc	4.95%
Silchester International Investors LLP	5.05%

Between 31 December 2022 and 3 March 2023 (the latest practicable date for inclusion in this report) there have been no changes to the table of major shareholders.

Dividend information

2022 dividend	Shareholders registered on the UK register
Ex-dividend date	16 March 2023
Record date	17 March 2023
Payment date	27 April 2023

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 3 March 2023 (the latest practicable date for inclusion in this report), the Company held 14,606,810 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 Re-investment 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 in this way, 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.

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. Clearly documented 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 market; provide equality of 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. Moreover, we 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 50 and the proportion of women on the Board and in senior executive positions can be found on page 97. The Company's ethnicity targets can be found on page 50.

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.

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 (e.g. hedging) and exposure (e.g. price, credit, liquidity, cash flow risk) is contained in the financial statements on pages 272 to 288.

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 pages 32-57 of this Report.

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 36 to the consolidated financial statements on page 290 sets out details of related party transactions.

Directors' and executives' beneficial interests

Details of Directors' and executives' beneficial interests can be found in the Directors' Remuneration Report on page 147.

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. No amounts were paid under these insurance or indemnity provisions both of which remained in force throughout 2022.

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.

Going concern

The Group's business activities, together with the factors that may affect its future development and performance are stated in the Strategic Report. The Strategic Report also describes the Group's business model and key components of our strategy. The principal risks and uncertainties that the Group is exposed to and how the Group manages and mitigates them is set out on pages 60-67.

The Board undertook a comprehensive going concern assessment to satisfy themselves of the appropriateness of the use of the going concern assumptions in relation to these consolidated financial statements. As part of the assessment, the Board considered the liquidity projections of the Group, including the impact of applying specific liquidity stresses. The Board also considered the ability of the Group to access external funding sources and the management actions that could be used to manage liquidity.

As part of the assessment, the Board also gave particular attention to the solvency projections of the Group under various stressed scenarios which consider various assumptions around inflation and actions by central banks resulting from the current macroeconomic environment and uncertain geopolitical situation which affect supply chains and consumer behaviours. These included various scenarios reflecting the possibility of a persistent high inflation environment and stagflation.

Based on the assessment undertaken, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The Directors have acknowledged their responsibilities in the Statement of Directors' Responsibilities in relation to the financial statements for the year ended 31 December 2022.

Greenhouse gas emissions

Details of our approach to the environment, including information in relation to greenhouse gas emissions, can be found on pages 76. This forms part of our climate-related disclosures on pages 68-89.

Branch registrations

The Group has registered branches in Belgium, France, Germany, Italy, Malta, The Netherlands, Poland, Spain, Sweden and the UK.

Research and development

The Group undertakes research and development activities in relation to longevity research and risk modelling as well as the impact of climate change on various asset classes.

Change of auditor

KPMG LLP resigned as the Group's statutory auditor at the conclusion of the 2021 audit and the Board resolved to appoint PricewaterhouseCoopers LLP (PwC) to fill the vacancy. A resolution to appoint PwC as auditor was approved by the Company's shareholders at the Annual General Meeting which took place on 25 May 2022. The Audit Committee oversaw the onboarding of PwC and their completion of the 2022 audit, as referred to in the Audit Committee Report on pages 110-116. PwC will be available at the 2023 Annual General Meeting to answer any questions.

Corporate governance statement

The Corporate Governance Statement on pages 106-107 forms part of the Directors' Report. It sets out relevant information on the corporate governance practices of M&G plc, and how it has applied the UK Corporate Governance Code issued by the Financial Reporting Council (FRC) in July 2018. It also includes details of internal control and risk management systems and diversity policies as well as the discussion of issues raised, topics considered and feedback received during engagement with employees and how Directors have had regard to the need to foster our business relationships with suppliers and clients.

Assessing and monitoring culture

Information on actions the Board has taken in relation to culture in 2022 can be found in the Strategic Report on pages 2-91 and in the Governance Report on pages 93-164.

Conflicts of interest

The Company has a Conflicts of Interest Policy and maintains a Conflicts of Interest Register. Mandatory training on conflicts for all M&G plc employees took place over 2022 and the Chief Risk & Compliance Officer reports to the Board and its Committees on conflicts as required.

Requirements of Listing Rule 9.8.4

Information to be included in the Annual Report and Accounts under Listing Rule 9.8.4, where applicable, can be found as follows:

Listing Rule	Description	Location
9.8.4(1)R	Interest capitalised	Not applicable
9.8.4(2)R	Publication of unaudited financial information	Supplementary Information page 318
9.8.4(4)R	Details of long-term incentive schemes required by Listing Rule 9.4.3	Directors' Remuneration Report page 119
9.8.4(5)R	Waiver of emoluments by a Director	Not applicable
9.8.4(6)R	Waiver of future emoluments by a Director	Not applicable
9.8.4(7)R	Non pre-emptive issues of equity for cash	Not applicable
9.8.4(8)R	Non pre-emptive issues of equity for cash in relation to major subsidiary undertakings	Not applicable
9.8.4(9)R	Parent participation in a placing by a listed subsidiary	Not applicable
9.8.4(10)R	Contracts of significance involving a Director	Not applicable
9.8.4(11)R	Provision of services by a controlling shareholder	Not applicable
9.8.4(12)R	Shareholder waivers of dividends	Dividend Information page 161
9.8.4(13)R	Shareholder waivers of future dividends	Dividend Information page 161
9.8.4(14)R	Agreements with controlling shareholders	Not applicable

Index to principal Directors' Report disclosures

Information required to be disclosed in the Directors' Report may be found in the following sections:

Information	Section in Annual Report	Page
Disclosure of information to auditor	Directors' Report	162
Directors in office during the year	Directors' Report	160
Credit Facilities	Directors' Report	161
Corporate responsibility governance	Strategic Report	55
Employment practices and engagement	Strategic Report	42
Greenhouse gas emissions	Climate-related disclosures	76
Charitable donations	Strategic Report	55
Assessing and monitoring culture	Strategic Report	48
Political donations and expenditure	Directors' Report	161
Remuneration Committee Report	Governance Report	119
Directors' interests in shares	Directors' Remuneration Report	147
Agreements for compensation for loss of office or employment on takeover	Directors' Remuneration Report	132
Details of qualifying third-party indemnity provisions	Directors' Report	162
Internal control and risk management objectives and policies	Strategic Report	59, 272-288
Rules governing appointment and removal of Directors	Governance Report	102
Significant agreements impacted by a change of control	Directors' Report	161
Business Review and future developments of the business	Strategic Report	10-13, 20-31
Post-balance sheet events	Note 39 of the financial statements	295
Rules governing changes to the Articles of Association	Shareholder Information	331
Structure of share capital, including changes during the year and restrictions on the transfer of securities, voting rights and significant shareholders	Directors' Report and Shareholder Information	160, 331
Other Stakeholder Engagement	Strategic Report	42
Changes in borrowings	Note 27 of the financial statements	256
Dividend details	Strategic Report	16
Financial instruments	Note 19 of the financial statements	243

In addition, the principal risks set out on pages 60-67, the additional unaudited financial information set out on pages 318-329 and the Shareholder Information section on page 331 are incorporated by reference into the Directors' Report.

Signed on behalf of the Board of Directors

Alan F Porter
General Counsel and Company Secretary
9 March 2023

The Directors are responsible for preparing the Annual Report and Accounts and the financial statements in accordance with applicable law and regulation.

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.

Signed on behalf of the Board of Directors

Andrea Rossi
Group Chief Executive Officer
9 March 2023

Financial information

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 2022 and of the Group's loss 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 2022 (the "Annual Report"), which comprise: the Consolidated and Company statements of financial position as at 31 December 2022; 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; the notes to the consolidated financial statements, which include a description of the Group significant accounting policies; the Company accounting policies and the notes to the Company financial statements.

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 8 we have provided no non-audit services to the Parent Company or its controlled undertakings 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.

The year ended 31 December 2022 is our first year as the external auditors of the Group. Following the external audit tender in 2020, we undertook certain transition activities, including attending key governance meetings during the 2021 financial reporting process. In planning for our first year audit, we met with the Audit Committee and members of management across the Group to understand the businesses and any significant changes during the year, and to understand their perspectives on associated business risks. We used this insight, in addition to our reviewing the previous auditors' audit work papers, when forming our own views regarding the audit risks and as part of developing our planned audit approach to address those risks. 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, we have considered the impacts that climate change could have on the Group, including physical or transitional risks which could arise. In particular, we have assessed the impacts on 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 three reportable segments, Retail and Savings, Asset Management, 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.
- Four components were subject to an audit of their complete financial information. Ten other components were subject to an audit on certain balances and transactions.
- Our audit scope provided coverage of 88% of IFRS Loss before tax and 93% of Total equity.

Key audit matters

- 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: Longevity (Group)
- Valuation of insurance contract liabilities: Credit default allowance (Group)
- Valuation of insurance contract liabilities: Renewal expenses (Group)
- IAS 8 disclosure on the adoption of IFRS 17 (Group)
- Recoverability of investment in subsidiaries (Parent Company)

Materiality

- Overall Group materiality: £55 million is equivalent to 8% of the 3-year average of the Adjusted operating profit before tax.
- Overall Parent Company materiality: £115 million based on 1% of total assets.
- Performance materiality: £35 million (Group) and £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.

Key audit matter	How our audit addressed the key audit matter

Valuation of hard to value financial investments (level 3) (Group)

Refer to notes 1.5.4, 32.3.1 & 34.2 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, investment contracts within its Retail and Savings business, 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 are complex to value, require the use of significant judgement and inputs that are not market observable. These complex investments are classified as Level 3 in the fair value hierarchy and include:

- Equity release mortgage loans;
- Unlisted equity investments;
- Private debt securities; and
- Investment property.

We focused on these complex investments because they are significant in size, the valuation is inherently uncertain and changes in estimates could result in material changes in their valuation.

Equity Release Mortgages (ERMs)

The valuation of the Group's ERM portfolio is inherently subjective due to unobservable inputs relating to the No Negative Equity Guarantee and the future property value. The valuation uses an internal discounted cash flow model with assumptions 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

Private equity investments are 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.

For externally managed funds, valuations are performed by the external fund managers and included in quarterly statements provided to the Group. Management holds these investments at the most recent Net Asset Value provided by the external fund manager.

Unquoted Debt securities

The valuation of investments in Private Placement loans and unquoted corporate bonds are predominately valued internally using discounted cash flow models with an internally developed discount rate.

Management adopts a two stage approach to the valuation of these instruments. The first stage is to set a credit rating and the second is to translate those credit ratings into discount rates that reflect the credit rating of the security and an individual instrument level spread at each period end.

Where there are no credit ratings from external credit rating agencies, internal credit ratings are set by internal credit analysts and used as an input in the asset valuation models.

We understood the nature of the investments, Management's approach to valuation, and made inquiries on the models and the source of the data used in the valuation to split the investments into categories by type.

For each category, we:

- Understood and assessed Management's process and controls over the valuations;
- We assessed both the methodology and assumptions used by Management in the calculation of the year end values 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 used within the valuation process, with reference to market data and industry benchmarks where available;
- Assessed the appropriateness of discount rate adjustments including the spread applied above risk free rate. We also considered observable market inputs, such as external market transactions to the extent relevant;
- Evaluated the appropriateness of the mortality, morbidity and voluntary redemptions assumptions used in the valuation, based on available experience data and industry data on expectations of future mortality improvements; and
- Performed detailed audit testing of the model calculations or 'model baselining' as part of our first year audit. We used our own modelling tools to replicate the asset cash flows for a sample of policies in order to validate that the model calculations are operating as intended.

For unlisted equity investments, we:

- Considered the methodology adopted by Management for investments in private equity funds and assessed its appropriateness in the context of the International Private Equity and Venture Capital Valuation ('IPEV') guidelines;
- Agreed the valuations applied to the most recent NAV statements, and sample tested any adjustments made for subsequent capital movements; and
- Performed look back testing on the NAV statements provided by each fund manager against the equivalent audited financial statements to ensure materially consistent.

For unquoted debt securities, we:

- Engaged our valuation experts to assess the appropriateness of Management's valuation methodology and internal credit rating methodology;
- For a sample of internally credit rated investments, challenged the assumptions used in setting the internal credit rating and came up with an internal credit rating;
- Independently assessed the valuation of a sample of investments, through the consideration of Management's methodology;
- For the sample selected, recalculated the valuations using our independently selected internal credit ratings and our valuation assumptions;
- Assessed the impact of our findings on credit ratings and valuation on the portfolio of private placement loans; and
- Tested a sample of significant inputs to Management's valuation calculations, specifically spread data, as well as contractual information about the securities.

Key audit matter	How our audit addressed the key audit matter

Valuation of hard to value financial investments (level 3) (Group) continued

Refer to notes 1.5.4, 32.3.1 & 34.2 to the consolidated financial statements for disclosures of related accounting policies, valuation methodologies and balances.

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. The wider challenges currently facing the real estate sector as a result of rising inflation and the impact of climate change further contributed to the subjectivity at 31 December 2022. 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 valuation experts (who are qualified chartered surveyors) to assist us in our audit of the property valuations;
- Assessed the expertise and objectivity of the third party valuers engaged by the Group;
- We obtained and read the external valuation reports and held separate meetings with the third party valuers to discuss the key assumptions;
- To verify that the valuation approach was suitable for use in determining the carrying value for investment properties in the financial statements, we:
  - i. Confirmed that the valuation approach was in accordance with RICS standards;
  - ii. 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;
  - iii. 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 assumptions were outside the expected range or otherwise appeared unusual, and/or valuations showed unexpected movements, we undertook further investigations;
  - iv. Assessed the reasonableness of other assumptions that are not so readily comparable with published benchmarks;
  - v. 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;
  - vi. We also performed testing on the standing data in the Group's information systems concerning the valuation process. We carried out procedures, on a sample basis, to satisfy ourselves of the accuracy of the property information supplied to the third party valuers by Management; and
  - vii. For properties under developments valued using the residual valuation method, we obtained the development appraisal and assessed the reasonableness of the Valuers' key assumptions. This included comparing the yield to comparable market benchmarks, comparing the costs to complete estimates 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.

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 1.5.15 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. This is a key area of focus as the valuation of the defined benefit obligations and certain hard to value plan assets is complex and judgemental.

Valuation of the defined benefit obligations

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 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.

Valuation of hard to value plan assets

The selection of the plan assets is the responsibility of the Trustee. The assets are predominantly assets which can be valued using quoted prices or with reference to market observable inputs. However we note that there are also assets that are hard to value, such as, the longevity swaps and the underlying investments in some of the pooled investment vehicles. The valuation of these assets require the use of significant judgement and inputs that are not market observable.

We have focused on the hard to value plan assets and the key assumptions that are used to estimate the DBO because of the significant size, the inherent uncertainty and judgement in the valuation. Also a focus on those changes in estimate that could result in a material change to the valuation.

We have performed the following procedures:

Valuation of the defined benefit obligations

- We understood and, evaluated the design effectiveness of key controls in place in respect of the DBO;
- We 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;
- We 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;
- We considered the objectivity and competence of Management's actuarial expert; and
- We reviewed management expert's IAS 19 report and challenged the methods adopted to determine the valuation of the obligations. We performed calculations of pension liabilities and compared these with the expert's calculations.

Valuation of hard to value plan assets

- We understood and assessed Management's process and controls over the valuations;
- We assessed both the methodology and assumptions used by Management in the calculation of the year end values;
- For the longevity swap, we engaged our actuarial specialists to evaluate the appropriateness of Management's valuation methodology and have assessed the magnitude of the change in value of the longevity swap since the year end; and
- For pooled investment vehicles we agreed the valuations to third party confirmations received from the investment managers. We also considered whether there was additional evidence available to corroborate (or contradict) the confirmed value. This included a review of pricing of transactions close to the year end, performing a look back test on the unaudited statements provided by each investment manager (against the equivalent audited financial statements) to ensure materially consistent, and a review of control reports of the service organisation responsible for pricing the asset.

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.

Key audit matter	How our audit addressed the key audit matter

Valuation of insurance contract liabilities: Annuitant mortality (Longevity)

Refer to note 1.5.2, 26 and 33.2 to the consolidated financial statements for disclosures of related accounting policies and balances.

Annuitant mortality assumptions are an area of significant Management judgement, due to the inherent uncertainty involved. We consider these assumptions underpinning gross 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 and a margin for prudence is then applied to these components.

- **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 granularity 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 on future mortality rates. The areas of judgement also include the selection of the mortality projection model and its calibration as well as re-expressing this in terms of the Continuous Mortality Investigation (CMI) Bureau industry standard model.

We have performed the following procedures:

- Understood and evaluated the design effectiveness of key controls in place in respect of the longevity assumptions to value 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 tools used by Management in carrying out the experience analysis, including testing the accuracy of the PRM model;
- 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 them with observed experience from the Group's portfolio and market data;
- Tested and challenged significant judgements in determining the longevity assumptions, including assessing the implications of COVID 19;
- Examined Management's internal governance papers setting out the financial impacts of assumption changes and compared them to our own expectations;
- Assessed the margin for prudence including benchmarking to peer companies, consistency over time and checking that this has been correctly applied to the assumptions;
- 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 used by peers using our annual benchmarking survey of the market; and
- Assessed the disclosure of the longevity assumptions and the commentary to support the impact from any changes for 2022 reporting in the financial statements.

Based on the work performed and the evidence obtained, we consider the assumptions used for annuitant mortality to be appropriate.

Key audit matter	How our audit addressed the key audit matter

Valuation of insurance contract liabilities: Credit default allowance (Group)

Refer to 1.5.2, 26, 33.2 to the consolidated financial statements for disclosures of related accounting policies and balances.

The Group's portfolio consists of annuities in payment and deferment. The valuation interest rate is the discount rate derived from the yield on the assets backing the annuity insurance contract liabilities and is used in calculating the present value of annuity benefit and other payments. The discount rate includes an explicit credit default allowance on the asset portfolio. The credit default assumptions involve complex and subjective judgements about future default and downgrade events which have a significant impact on the insurance contract liabilities, with small changes having a large financial impact, and hence this is a key audit matter.

The credit default risk assumptions are set based on the credit rating of the assets backing the liabilities and consist of various components. The components include:

- A relatively mechanical long-term allowances for expected defaults and downgrades (based on historical data);
- A credit risk premium (or margin for prudence); and
- A short-term overlay reflecting a prospective outlook on future potential experience.

Significant management judgement is required, in particular, to set the internal credit ratings for illiquid level 3 assets (such as Ground Rents and Lifetime Mortgages); and in selecting the short-term overlay to allow for risks not captured in the long-term credit default allowance.

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;
- Obtained an understanding and challenged Management over the analysis performed to assess internal credit ratings for illiquid assets. Tested the approach, the ratings ascribed and the resulting default allowances;
- Assessed the methodology used to derive the credit default assumptions (including margin for prudence) with reference to relevant rules and actuarial guidance and by applying our industry knowledge and experience;
- Tested to ensure that the inputs and calculations were in line with intended methodology and are appropriate;
- Tested and challenged key Management judgements including the short-term overlay, referencing industry data 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 appropriateness of the margin for prudence and its consistency over time;
- Examined Management's calculation of the financial impact of changes to the credit default assumptions, to ensure that these are in line with our expectations;
- Assessed the disclosure of the credit default risk assumptions and the commentary to support the impact from any changes for 2022 reporting in the financial statements.

Based on the work performed and the evidence obtained, we consider the assumptions used for credit default risk to be appropriate.

Key audit matter	How our audit addressed the key audit matter

Valuation of insurance contract liabilities: Renewal expenses (Group)

Refer to note 1.5.2, 26 and 33.2 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 and investment contract liabilities with discretionary participation features. 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 and a margin for prudence.

Significant judgement is required to estimate the maintenance expenses through the allocation of costs to cost centres within the allocation model; 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 provisioning; and the allocation to products. 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 for how the expenses will inflate in future. This is set with reference to industry and market data; Management's view of how their cost base will inflate in future; and includes a margin for prudence.

This is a key input into the insurance contract liabilities and investment contract liabilities with discretionary participation features. Due to the projection of these costs forward over the duration of the policies, 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 the renewal expense assumptions in the valuation of insurance contract liabilities and investment contract liabilities with discretionary participation features;
- 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;
- Assessed the methodology used by Management to derive the assumptions with reference to relevant rules and actuarial guidance and by applying our industry knowledge and experience;
- Assessed the appropriateness of significant judgements in application of the methodology, including excluded costs (for example, due to costs either not relating to the insurance business or being non-recurring in nature), the split of expenses between acquisition and maintenance expenses and the allocation of costs to products;
- Performed substantive testing to check that the calculation of the final expense assumptions is correct and in line with our expectation;
- Assessed the appropriateness of the IFRS prudence margin and its consistency over time;
- Tested the assumption derived for expense inflation by assessing the use of industry data and challenged the judgements used within the calculations to ensure that they are reasonable; and
- Assessed the disclosure of the renewal expense assumptions and the commentary to support the impact from any changes for 2022 reporting in the financial statements.

Based on the work performed and the evidence obtained, we consider the assumptions used for renewal expenses to be appropriate.

Key audit matter	How our audit addressed the key audit matter

Disclosure of the expected impact of the initial application of IFRS 17 'Insurance Contracts' in accordance with IAS 8 (Group)

Refer to note 1.2.2 to the consolidated financial statements for disclosures of related accounting policies and balances.

International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8), requires the disclosure of reasonably estimable information relevant to assessing the possible impact of new accounting standards issued but not yet effective. International Financial Reporting Standard 17, Insurance Contracts, (IFRS 17 or 'the standard') became effective for periods beginning on or after 1st January 2023. The related IAS 8 disclosures in these financial statements are intended to provide users with an understanding of the estimated impact of the new standard, and as a result, are more limited than the disclosures that will be required within the 2023 Half Year results and Annual Report and Accounts.

We have determined the disclosure of the impact of IFRS 17 to be a key audit matter because of the significant changes introduced under the new standard, and the judgements required to estimate the impact at 1 January 2022 (the 'transition date').

IFRS 17 adoption is expected to significantly increase the Group's total equity as at the transition date. This is primarily due to a proportion of the surplus in the with-profit fund being recognised in equity where previously in IFRS 4 the amount was part of the 'Unallocated Surplus of the With Profit Fund' liability. The amount is partially offset by the slower release of profits under IFRS 17 compared to IFRS 4 for annuity contracts through the establishment of the Contractual Service Margin (CSM) at the transition date.

The implementation of IFRS 17 requires the Group to interpret the requirements of the new standard and make significant judgments and assumptions to develop its accounting policies. Key judgements made include:

- The determination of the date before which it is impracticable to apply the fully retrospective approach;
- The selection of data and assumptions in applying the modified retrospective approach to calculate the CSM on transition (for applicable with-profit contracts);
- The approach for how the fair value has been determined to calculate the CSM on transition (for applicable contracts); and
- The application of IFRS 17 to with-profit contracts.

New processes and tools are required to calculate the CSM on transition. Due to the one-off nature of the transition calculations these processes and tools are often not the end state architecture and consideration is required as to whether these adequately implement the intended methodology and have been validated and through the appropriate governance.

We performed the following procedures to assess the appropriateness of the IAS 8 disclosure in respect to the estimated impact of the initial adoption of IFRS 17:

- Understood and assessed the relevant controls and governance process in place for the determination and approval of key IFRS17 methodologies, judgments and assumptions; and the valuation of the impact on the Group's total equity on adopting IFRS 17 at the transition date;
- Obtained an understanding of Management's approach to transition including the selection of fully retrospective, modified retrospective, and fair value approaches ("the transition approaches"), and challenged Management's assessment of impracticability and obtained supporting evidence;
- Obtained an understanding of and challenged the key methodologies, judgements and assumptions used to develop and calculate the impact on the Group's total equity on adopting IFRS 17. We involved PwC actuarial specialists to evaluate the key actuarial judgements and assumptions in applying the transition approaches for each Group of products; and the application of IFRS 17 to with-profit contracts;
- Performed substantive testing, including the involvement of PwC actuarial specialists, over the calculations, processes and tools developed to determine the impacts on the Group's total equity on adopting IFRS 17 at the transition date; and
- Reviewed the quantitative and qualitative disclosures to ensure they comply with the requirements of IAS 8 and the quantitative elements appropriately reflect the level of certainty in the outcome of the remaining transition work and judgements to be performed by the Group.

Based on the audit procedures performed and evidence obtained, we consider the disclosures related to the initial impact of IFRS 17 to be appropriate.

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 for the largest investment in subsidiaries and full impairment assessment has been undertaken.
	Our procedures in relation to Management's assessment of the carrying value of investments in subsidiary undertakings as at 31 December 2022 included the following:
	– We 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;
	  – 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 full scope audit over the following four components:

i) the Parent Company, M&G plc;
ii) Prudential Assurance Company (the key contributor to the "Retail and Savings" segment);
iii) M&G Group (the key contributor to the "Asset Management" segment);
iv) M&G Corporate Services Limited (the key contributor to the "Corporate Centre" 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 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 2022.

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	£55 million.	£115 million.
Materiality benchmark	The materiality amount was selected judgmentally and is equivalent to 8% of the 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, Profit before tax, Operational Capital Generation, Total assets, and Solvency II own funds.	As the entity is the parent entity and its balance sheet is 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 £52.25 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% of overall materiality, amounting to £35 million for the Group financial statements and £79 million for the Parent Company financial statements.

In determining the performance materiality, we considered a number of factors - it being our first year of audit of the Group and the Parent Company, 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 M&G plc Group Audit Committee that we would report to them misstatements identified during our audit above £2.5 million (Group audit) and £5.7 million (Parent Company audit) 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 identity 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, which includes reporting based on the TCFD recommendations. 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 2022 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 Governance - "How we comply with the Corporate Governance Code" section 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 the 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, Senior Management, Internal Audit, senior 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;
- Testing transactions entered into outside of the normal course of the Group and Parent Company's business, including notably acquisitions of businesses in the period;
- 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 M&G plc Group 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. This is therefore our first year of uninterrupted engagement.

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
9 March 2023

Consolidated income statement

For the year ended 31 December	Note	2022 £m	Restated[i] 2021 £m
Gross premiums earned		**6,507**	4,784
Outward reinsurance premiums		**(479)**	(1,019)
Earned premiums, net of reinsurance		**6,028**	3,765
Investment return	4	**(15,656)**	12,909
Fee income	5	**1,037**	983
Other income		**46**	115
Total revenue, net of reinsurance		**(8,545)**	17,772
Benefits and claims	26	**6,987**	(3,551)
Outward reinsurers' share of benefit and claims	26	**(241)**	(8,480)
Movement in unallocated surplus of the With-Profits Fund	26	**1,689**	(1,052)
Benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance		**8,435**	(13,083)
Administrative and other expenses	6	**(2,810)**	(2,803)
Movements in third party interest in consolidated funds		**547**	(1,019)
Finance costs	6	**(162)**	(160)
Total charges, net of reinsurance		**6,010**	(17,065)
Share of profit from joint ventures and associates	14	**38**	81
(Loss)/profit before tax[ii]		**(2,497)**	788
Tax credit/(charge) attributable to policyholders' returns	9	**379**	(707)
(Loss)/profit before tax attributable to equity holders		**(2,118)**	81
Total tax credit/(charge)	9	**878**	(696)
Less tax (credit)/charge attributable to policyholders' returns		**(379)**	707
Tax credit attributable to equity holders	9	**499**	11
(Loss)/profit for the year		**(1,619)**	92
Attributable to equity holders of M&G plc		**(1,632)**	83
Attributable to non-controlling interests		**13**	9
(Loss)/profit for the year		**(1,619)**	92
Earnings per share:			
Basic (pence per share)	10	**(66.0)**	3.3
Diluted (pence per share)	10	**(66.0)**	3.2

i Following a review of the Group's presentation of tax positions within consolidated investment funds, comparative amounts have been restated from those previously reported. The restatement has had no impact on profit for the year or net assets. See Note 1.1 for further information.

ii This measure is the profit before tax measure under UK-adopted IAS 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 UK-adopted IAS. Consequently, profit before tax is not representative of pre-tax profits attributable to equity holders. Profit before tax is determined after deducting the cost of policyholder benefits and movements in the liability for unallocated surplus of the With-Profits Fund after adjusting for taxes borne by policyholders.

The Notes on pages 185 to 308 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December	Note	2022 £m	2021 £m
(Loss)/profit for the year		**(1,619)**	92
Items that may be reclassified subsequently to profit or loss:			
Exchange movements arising on foreign operations	25	**20**	(13)
Other comprehensive income/(loss) on items that may be reclassified subsequently to profit or loss		**20**	(13)
Items that will not be reclassified to profit or loss:			
Gain on remeasurement of defined benefit pension schemes	17	**29**	71
Tax on remeasurement of defined benefit pension schemes	9	**(7)**	(19)
		22	52
Add amount transferred to Unallocated surplus of the With-Profits Fund, net of related tax		**2**	(2)
Other comprehensive income on items that will not be reclassified to profit or loss		**24**	50
Other comprehensive income for the year, net of related tax		**44**	37
Total comprehensive (loss)/income for the year		**(1,575)**	129
Attributable to equity holders of M&G plc		**(1,588)**	120
Attributable to non-controlling interests		**13**	9
Total comprehensive (loss)/income for the year		**(1,575)**	129

The Notes on pages 185 to 308 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 31 December	Note	2022 £m	Restated[i] 2021 £m
Assets			
Goodwill and intangible assets	12	**1,877**	1,615
Deferred acquisition costs	13	**94**	94
Defined benefit pension asset	17	**155**	38
Investment in joint ventures and associates accounted for using the equity method	14	**413**	469
Property, plant and equipment	15	**1,953**	2,536
Investment property	16	**16,505**	19,698
Deferred tax assets	9	**651**	119
Reinsurance assets	26	**1,186**	1,669
Equity securities and pooled investment funds		**70,127**	74,069
Loans	18	**3,330**	5,809
Debt securities		**62,821**	81,059
Derivative assets		**2,850**	3,373
Deposits		**21,401**	17,633
Current tax and other tax assets	9	**289**	375
Accrued investment income and other debtors	20	**2,340**	2,647
Assets held for sale[ii]		**684**	1,023
Cash and cash equivalents	21	**4,884**	6,908
Total assets		**191,560**	219,134
Equity			
Share capital	22	**119**	130
Share premium reserve	22	**370**	370
Shares held by employee benefit trust	23	**(70)**	(93)
Treasury shares	23	**(47)**	(1)
Retained earnings	24	**14,023**	16,550
Other reserves	25	**(11,613)**	(11,660)
Equity attributable to equity holders of M&G plc		**2,782**	5,296
Non-controlling interests		**48**	49
Total equity		**2,830**	5,345
Liabilities			
Insurance contract liabilities	26	**49,805**	63,223
Investment contract liabilities with discretionary participation features	26	**78,594**	82,743
Investment contract liabilities without discretionary participation features	26	**11,937**	14,884
Unallocated surplus of the With-Profits Fund	26	**15,130**	16,723
Third party interest in consolidated funds		**10,389**	12,636
Subordinated liabilities and other borrowings	27	**7,537**	8,930
Defined benefit pension liability	17	**–**	84
Deferred tax liabilities	9	**780**	1,419
Lease liabilities	28	**420**	413
Current tax and other tax liabilities	9	**113**	359
Derivative liabilities		**4,185**	2,689
Other financial liabilities		**2,172**	2,882
Provisions	29	**90**	138
Accruals, deferred income and other liabilities	30	**7,406**	6,666
Liabilities held for sale[ii]		**172**	–
Total liabilities		**188,730**	213,789
Total equity and liabilities		**191,560**	219,134

i Following a review of the Group's presentation of tax positions within consolidated investment funds, comparative amounts have been restated from those previously reported. The restatement has had no impact on the profit for the year or net assets. See Note 1.1 for further information.

ii Assets held for sale on the consolidated statement of financial position as at 31 December 2022 includes £158m (2021: £127m) of seed capital and £333m of investment property (2021: £896m) that are expected to be divested within 12 months. £398m of property assets held for sale as at 31 December 2021 were transferred back to investment property during the year ended 31 December 2022. Additionally, as at 31 December 2022 £193m of assets (year ended 31 December 2021: £nil) and £172m of liabilities (year ended 31 December 2021: £nil) held for sale are in relation to the Group's consolidated infrastructure capital private equity vehicles.

The Notes on pages 185 to 308 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 180 to 308 were approved by the Board and signed on its behalf by the following Directors on 9 March 2023:

Andrea Rossi Group Chief Executive Officer

Kathryn McLeland Chief Financial Officer

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 2022		**130**	**370**	**(93)**	**(1)**	**16,550**	**(11,660)**	**5,296**	**49**	**5,345**
(Loss)/profit for the year		**–**	**–**	**–**	**–**	**(1,632)**	**–**	**(1,632)**	**13**	**(1,619)**
Other comprehensive income for the year	24, 25	**–**	**–**	**–**	**–**	**24**	**20**	**44**	**–**	**44**
Total comprehensive (loss)/income for the year		**–**	**–**	**–**	**–**	**(1,608)**	**20**	**(1,588)**	**13**	**(1,575)**
Shares purchased in buy-back[i]	22	**(11)**	**–**	**–**	**(47)**	**(456)**	**11**	**(503)**	**–**	**(503)**
Dividends paid to equity holders of M&G plc	11	**–**	**–**	**–**	**–**	**(465)**	**–**	**(465)**	**–**	**(465)**
Dividends paid to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(14)**	**(14)**
Shares distributed by trusts	24	**–**	**–**	**23**	**–**	**(22)**	**–**	**1**	**–**	**1**
Vested employee share-based payments	24, 25	**–**	**–**	**–**	**–**	**23**	**(23)**	**–**	**–**	**–**
Expense recognised in respect of share-based payments	25	**–**	**–**	**–**	**–**	**–**	**34**	**34**	**–**	**34**
Tax effect of items recognised directly in equity	24, 25	**–**	**–**	**–**	**–**	**1**	**5**	**6**	**–**	**6**
Other movements		**–**	**–**	**–**	**1**	**–**	**–**	**1**	**–**	**1**
Net (decrease)/increase in equity		**(11)**	**–**	**23**	**(46)**	**(2,527)**	**47**	**(2,514)**	**(1)**	**(2,515)**
As at 31 December 2022		**119**	**370**	**(70)**	**(47)**	**14,023**	**(11,613)**	**2,782**	**48**	**2,830**

i On 24 March 2022, the Group announced that it would commence a share buy-back programme to purchase ordinary shares of 5 pence each up to a maximum consideration of £500m and the programme completed on 27 October 2022 for 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.

	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 2021		130	370	(117)	(1)	16,853	(11,658)	5,577	8	5,585
Profit for the year		–	–	–	–	83	–	83	9	92
Other comprehensive income for the year	24, 25	–	–	–	–	50	(13)	37	–	37
Total comprehensive income for the year		–	–	–	–	133	(13)	120	9	129
Non-controlling interest arising through business combinations		–	–	–	–	–	–	–	38	38
Dividends paid to equity holders of M&G plc	11	–	–	–	–	(466)	–	(466)	–	(466)
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	(6)	(6)
Shares distributed by trusts	24	–	–	24	–	(24)	–	–	–	–
Vested employee share-based payments	24, 25	–	–	–	–	33	(33)	–	–	–
Expense recognised in respect of share-based payments	25	–	–	–	–	–	40	40	–	40
Tax effect of items recognised directly in equity	24, 25	–	–	–	–	21	4	25	–	25
Net increase/(decrease) in equity		–	–	24	–	(303)	(2)	(281)	41	(240)
As at 31 December 2021		130	370	(93)	(1)	16,550	(11,660)	5,296	49	5,345

The Notes on pages 185 to 308 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December	Note	2022 £m	Restated[i] 2021 £m
Cash flows from operating activities:			
(Loss)/profit before tax		**(2,497)**	788
Non-cash and other movements in operating assets and liabilities included in profit before tax:			
Investments		**26,477**	(804)
Other non-investment and non-cash assets[ii]		**1,761**	10,524
Policyholder liabilities (including unallocated surplus)[ii]		**(22,179)**	(9,846)
Other liabilities (including operational borrowings)		**(4,210)**	1,213
Interest income, interest expense and dividend income		**(4,491)**	(4,028)
Other non-cash items[iii]		**242**	(456)
Operating cash items:			
Interest receipts		**2,529**	2,321
Interest payments[i]		**(88)**	(144)
Dividend receipts		**2,220**	2,066
Tax paid[iv]		**(268)**	(332)
Net cash flows from operating activities[v]		**(504)**	1,302
Cash flows from investing activities:			
Purchases of property, plant and equipment		**(573)**	(770)
Proceeds from disposal of property, plant and equipment		**1**	41
Net cash (paid)/acquired on acquisition of subsidiaries[vi]		**(210)**	13
Divestment in subsidiaries by consolidated private equity vehicles[vii]		**429**	250
Investment in subsidiaries by consolidated private equity vehicles[vii]		**(15)**	–
Net cash flows from investing activities		**(368)**	(466)
Cash flows from financing activities:			
Interest paid		**(190)**	(186)
Lease capital repayments[i]		**(30)**	(23)
Shares purchased in buy-back	22	**(503)**	–
Dividends paid to equity holders of M&G Plc	11	**(465)**	(466)
Dividends paid to non-controlling interests[iii]		**(14)**	(6)
Net cash flows from financing activities		**(1,202)**	(681)
Net (decrease)/increase in cash and cash equivalents		**(2,074)**	155
Cash and cash equivalents at 1 January	21	**6,908**	6,776
Effect of exchange rate changes on cash and cash equivalents		**50**	(23)
Cash and cash equivalents at 31 December	21	**4,884**	6,908

i Following a review of the Group's presentation of tax positions within consolidated investment funds, comparative amounts have been restated from those previously reported. The restatement has had no impact on profit for the year or net assets. See Note 1.1 for further information. Additionally, interest payments on leases have been reallocated to Interest payments, these were previously reported within Lease capital repayments.

ii Other non-investment and non-cash assets and Policyholder liabilities (including unallocated surplus) for the year ended 31 December 2021 includes the impact of the £9.6bn Part VII transfer of annuities business to Rothesay Life PLC.

iii Dividends paid to non-controlling interests of £6m for the year ended 31 December 2021 have been reallocated from operating activities to financing activities.

iv Tax paid for the year ended 31 December 2022 includes £68m (2021: £173m) paid on profits taxable at policyholder rather than shareholder rates.

v 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.

vi Net cash (paid)/acquired on acquisition of subsidiaries consists of £227m (2021: £0.2m) of cash paid, net of £17m (2021: £13m) cash acquired. Refer to Note 2.2 for further information on shareholder acquisitions made in the year.

vii 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.

The Notes on pages 185 to 308 are an integral part of these consolidated financial statements.

1 Basis of preparation and significant accounting policies

1.1 Basis of preparation

The consolidated financial statements for the year ended 31 December 2022 comprising the financial statements of M&G plc ('the Company') and its subsidiaries (together referred to as 'the Group'), 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 or loss (FVTPL), insurance contract liabilities that are measured in accordance with the requirements of IFRS 4: 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.

Restatement of prior period information

The comparative consolidated statement of financial position as at 31 December 2021 has been restated following a presentational change in tax-related balances arising in certain consolidated property funds which were disclosed incorrectly in the prior period. The tax balances have been reallocated from Accruals, deferred income and other liabilities to Current tax liabilities and other taxes and Deferred tax liabilities.

The comparative consolidated income statement for the year ended 31 December 2021 has also been restated to reallocate tax expense from Administrative and other expenses to Tax charge attributable to policyholders' returns, to reflect this presentational change. As a result, Profit before tax for the year ended 31 December 2021 has been restated.

The restatement has had no impact on profit for the year ended 31 December 2021 or total equity attributable to shareholders as at 31 December 2021.

The impact of the restatement on the consolidated statement of financial position and consolidated income statement is set out in the tables below:

	Note	For the year ended 31 December 2021 as previously reported £m	Adjustments £m	For the year ended 31 December 2021 restated £m
Consolidated income statement:				
Administrative and other expenses	6	(2,884)	81	(2,803)
Total charges, net of reinsurance		(17,146)	81	(17,065)
Profit before tax		707	81	788
Tax charge attributable to policyholders' returns	9	(626)	(81)	(707)
Total tax charge	9	(615)	(81)	(696)
Less tax charge attributable to policyholders' returns		(626)	(81)	(707)

	Note	As at 31 December 2021 as previously reported £m	Adjustments £m	As at 31 December 2021 restated £m	1 January 2021 as previously reported £m	Adjustments £m	1 January 2021 restated £m
Consolidated statement of financial position:							
Liabilities:							
Deferred tax liabilities	9	1,157	262	1,419	916	210	1,126
Current tax liabilities and other taxes	9	323	36	359	276	21	297
Accruals, deferred income and other liabilities	30	6,964	(298)	6,666	6,964	(231)	6,733
Other		205,345	–	205,345	214,985	–	214,985
Total liabilities		213,789	–	213,789	223,141	–	223,141

In the consolidated statement of cash flows, £81m has been reallocated from Profit before tax and split between Other liabilities of £67m, Other non-cash items of £3m and Tax paid of £17m, to reflect the change in presentation. The reallocation from Profit before tax relates to policyholder tax and does not impact Profit before tax attributable to equity holders. Comparatives in the impacted notes to the consolidated financial statements have also been restated.

1 Basis of preparation and significant accounting policies continued

Going concern

The Directors have reasonable expectation that the Group as a whole has adequate resources to continue in operational existence over 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 assumption 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, including access to the £1.5bn revolving credit facility (as explained in the Directors' Report and disclosed at note 27.2.1) and the management actions that could be used to manage liquidity.

In addition, the Directors also gave particular attention to the solvency and liquidity projections of the Group under various stressed scenarios which consider various assumptions around inflation and actions by central banks resulting from the current macroeconomic environment and uncertain geo-political situation which affect supply chains and consumer behaviours.

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)

We also assessed the resilience of our financial position in a high inflationary environment scenario and the economic implications resulting from it.

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, considering relevant management actions are taken as necessary. 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 and Company financial statements.

1.2 New accounting pronouncements

1.2.1 New accounting pronouncements adopted by the Group

In preparing these consolidated financial statements, the Group has adopted the following standards, interpretations and amendments that became effective during the year:

- Reference to the Conceptual Framework (Amendments to IFRS 3), issued in May 2020 and effective from 1 January 2022
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16), issued in May 2020 and effective from 1 January 2022
- Onerous Contracts – Costs of Fulfilling a Contract (Amendments to IAS 37), issued in March 2018 and effective from 1 January 2022

None of the above interpretations and amendments to standards are considered to have a material effect on these consolidated financial statements.

1.2.2 New accounting pronouncements not yet effective

The following standards, interpretations and amendments have been issued but are not yet effective for the Group. This is not intended to be a complete list, as only those standards, interpretations and amendments that could have an impact upon the consolidated financial statements are discussed.

1 Basis of preparation and significant accounting policies continued

1.2.2.1 IFRS 9: Financial Instruments

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

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

In September 2016, the IASB published amendments to IFRS 4, "Applying IFRS 9: Financial Instruments with IFRS 4: Insurance Contracts" to address the temporary consequences of the different effective dates of IFRS 9 and IFRS 17: Insurance Contracts. The amendments include an optional temporary exemption from applying IFRS 9 and the associated amendments until IFRS 17 comes into effect. This temporary exemption is available to companies whose predominant activity is to issue insurance contracts based on meeting the eligibility criteria as at 31 December 2015, as set out in the amendments. In June 2020, the IASB amended IFRS 17 so that the revised effective date of the standard is for periods beginning on or after 1 January 2023. The IASB also confirmed through this amendment that IFRS 9 could be delayed for insurers to keep the effective dates of IFRS 9 and IFRS 17 aligned.

As the Group met the required eligibility criteria for temporary exemption, the adoption of IFRS 9 has been deferred to coincide with the adoption of IFRS 17 on 1 January 2023. The comparative period will be restated for IFRS 9 and the Group will apply the classification overlay in IFRS 17 to financial assets derecognised in 2022 and present these assets as if classification and measurement of IFRS 9 have been applied.

Classification and measurement

Under IFRS 9, financial assets are classified into three categories: fair value through profit or loss, fair value through other comprehensive income or amortised cost. The classification is based on the business model on which the financial assets are managed and the contractual cash flows of these assets. IFRS 9 largely retains the requirements of IAS 39 in respect of the classification and measurement of financial liabilities.

IFRS 9 will affect the classification and measurement of financial instruments held at 1 January 2023 as follows:

	Classification under IAS 39	Classification under IFRS 9
Financial assets:		
Loans	Loans and receivables/FVTPL designated	FVTPL mandatory
Derivative assets	FVTPL held for trading	FVTPL mandatory
Equity securities and pooled investment funds	FVTPL designated	FVTPL mandatory
Deposits	Loans and receivables	Amortised cost
Debt securities	FVTPL designated	FVTPL mandatory
Accrued investment income and other debtors	Loans and receivables	Amortised cost
Cash and cash equivalents	Loans and receivables	Amortised cost
	Classification under IAS 39	Classification under IFRS 9
Financial liabilities:		
Investment contract liabilities without DPF	FVTPL designated	FVTPL designated
Third party interests in consolidated funds	FVTPL designated	FVTPL designated
Subordinated liabilities and other borrowings	Amortised cost	Amortised cost
Derivative liabilities	FVTPL held for trading	FVTPL mandatory
Other financial liabilities	Amortised cost	Amortised cost
Accruals, deferred income and other liabilities[i]	Amortised cost	Amortised cost

i Except Deferred consideration which is classified as FVTPL designated under IAS 39 and IFRS 9.

The majority of the Group's financial instruments are measured at fair value both before and after transition to IFRS 9. The impact to Group total equity from reclassifying loans from amortised cost to fair value is a decrease of £0.1bn at 1 January 2023 and an increase of £0.1bn at 1 January 2022.

1 Basis of preparation and significant accounting policies continued

Impairment

A new impairment model will apply to the Group's financial assets measured at amortised cost. The Group estimate that due to the size and nature of the assets that will be held at amortised cost following the application of the IFRS 9, there will be no material change to the impairment recognised.

Hedge accounting

The Group does not currently apply hedge accounting.

The assessment above is preliminary and is subject to change as the Group continues to refine the new accounting policies, assumptions, judgements and estimates in respect of IFRS 9.

Presented below are disclosures required by the amendments to IFRS 4 for entities deferring the adoption of IFRS 9. These are provided to enable users to compare results with those entities that have adopted IFRS 9. As required by the amendment, the table shows the fair value of the Group's directly held financial assets at 31 December 2022, distinguishing those financial assets which have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) as defined by IFRS 9.

	Financial assets that pass the SPPI test		All other financial assets, net of derivative liabilities	
Financial assets on the consolidated statement of financial position	31 December 2022 £m	Movement in fair value during the year £m	31 December 2022 £m	Movement in fair value during the year £m
Equity securities and pooled investment funds	–	–	**70,127**	**(2,876)**
Loans	–	–	**3,233**	**(933)**
Debt securities	–	–	**62,821**	**(12,637)**
Derivative assets – net of derivative liabilities	–	–	**(1,335)**	**(3,983)**
Deposits	**21,401**	–	–	–
Accrued investment income and other debtors	**2,340**	–	–	–
Cash and cash equivalents	**4,884**	–	–	–
Total financial assets, net of derivative liabilities	**28,625**	–	**134,846**	**(20,429)**

	Financial assets that pass the SPPI test		All other financial assets, net of derivative liabilities	
Financial assets on the consolidated statement of financial position	31 December 2021 £m	Movement in fair value during the year £m	31 December 2021 £m	Movement in fair value during the year £m
Equity securities and pooled investment funds	–	–	74,069	9,298
Loans[i]	–	–	5,876	(172)
Debt securities	–	–	81,059	(2,732)
Derivative assets – net of derivative liabilities	–	–	684	(56)
Deposits	17,633	–	–	–
Accrued investment income and other debtors	2,647	–	–	–
Cash and cash equivalents	6,908	–	–	–
Total financial assets, net of derivative liabilities	27,188	–	161,688	6,338

i Loans have been restated for 31 December 2021 from Financial assets that pass the SPPI test to All other financial assets net of derivative liabilities following a business model assessment carried out in 2022.

1 Basis of preparation and significant accounting policies continued

1.2.2.2 IFRS 17: Insurance Contracts

IFRS 17: Insurance Contracts (IFRS 17), effective from 1 January 2023, has been published by the IASB, and endorsed without amendment for application by UK listed groups by the UK Endorsement Board. IFRS 17 replaces the existing interim standard, IFRS 4: Insurance Contracts. The Group intends to adopt the new standard on its mandatory effective date, alongside the adoption of IFRS 9: Financial Instruments.

A key principle of IFRS 17 is that the profit from insurance contracts (and investment contracts with discretionary participation features) is recognised over the period over which service is provided to policyholders. In addition, while expected profits are deferred, expected losses are recognised immediately and, as a consequence, the accounting result depends on the level of aggregation at which the contracts are measured. Given this, IFRS 17 specifies how the insurance contracts should be divided into groups for the purpose of recognition and measurement.

Status of implementation project

The implementation of IFRS 17 continues to be a key priority for the Group and involves significant change to systems and processes. Key components of the programme include a large number of methodology and implementation judgements, delivery of new systems and controls and the production of comparative results. To deliver a programme of this size, a large number of resources, incorporating a wide range of skills and expertise, are required.

Project progress is tracked against key milestones and reported through internal governance, including to the Group Audit Committee, on an ongoing basis. Due to the complexity of the with-profits business and scale of change involved, delivery remains challenging but the programme has met key milestones and is preparing to report in accordance with the new standard in 2023. The focus over 2023 is the completion of the production of restated comparatives and ensuring the business is ready to migrate to the new systems, processes and internal controls in the timescales available.

Overview of IFRS 17

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 discretionary participation features (DPF) issued, provided the entity also issues insurance contracts.

The definitions of insurance risk and discretionary participation features under IFRS 17 are unchanged from IFRS 4. Therefore the Group's judgements as to what constitutes significant insurance risk and significant discretionary participation features when determining whether contracts are within the scope of IFRS 17 are unchanged from the judgements that the Group made for IFRS 4.

Identifying contracts

The requirements for identifying contracts within the scope of IFRS 17 is not limited to determining only whether a contract falls into one of the three categories above but also requires the entity to assess whether contracts within the scope of IFRS 17 contain embedded derivatives, distinct investment components or obligations to provide distinct goods or services other than insurance contract services that must be separated out and accounted for under a different standard (with the remaining components accounted for under IFRS 17).

Level of aggregation

IFRS 17 requires contracts to be aggregated together into groups for measurement purposes. Contracts are grouped together:

- If they are subject to similar risks and managed together;
- If they were issued in the same calendar year; and
- According to whether at initial recognition they are expected to be loss making, profitable with no significant possibility of becoming loss making subsequently, or neither of these.

There are similar grouping requirements applied to reinsurance contracts held although, rather than being assessed by profitability, reinsurance contracts held are assessed according to whether at initial recognition their value to the Group is a net gain, a net loss with no significant possibility that the value becomes a net gain subsequently, or neither of these.

Upon transition the Group expects to aggregate the in-force contracts into about 70 groups.

1 Basis of preparation and significant accounting policies continued

Measurement – Overview

The carrying amount of a group of insurance contracts is the sum of the liability for incurred claims and the liability for remaining coverage. The liability for incurred claims contains fulfilment cash flows for incurred claims that have not yet been paid to policyholders and other relevant cash flows.

The liability for remaining coverage is the sum of:

- The present value of the probability-weighted expected future cash flows that are expected to arise from fulfilling the contracts. Cash flows are discounted using risk-free yield curves adjusted to reflect the liquidity characteristics of the contracts;
- An explicit risk adjustment that reflects the entity's own view of the additional amount it requires for bearing the uncertainty about the timing and amount of the cash flows that arises from non-financial risk; and
- A contractual service margin (CSM), which represents the unearned profit that will be recognised as the entity provides services under the contracts.

Measurement – future cash flows

Underlying items

IFRS 17 includes the concept of "underlying items", which are assets that determine some of the amounts payable to policyholders. Underlying items form part of the assessment of "direct participation features", which determines which CSM measurement model must be used and how the CSM is re-measured under the Variable Fee Approach (see section on CSM measurement below). Underlying items are also included in the assessment of whether there is mutualisation (see below) between groups of contracts.

Underlying items of the with-profits groups of insurance contracts

The underlying items are the assets backing the asset shares (which are the accumulated value of all items of income and outgo for with-profits policies) plus, where applicable, the assets backing enhancements that are expected to be added to asset shares in the future, such as profit from some of the non-profit business written in the With-Profits Fund.

Other underlying items in the With-Profits Fund

The With-Profits Fund includes assets that are expected to be utilised to pay amounts to current or future policyholders in addition to the provisions held in the groups of insurance contracts. The underlying items for these additional amounts are defined as:

- The entirety of the assets in the With-Profits Fund;
- Less: the underlying items of the with-profits groups of insurance contracts; and
- Less: the assets held to meet other liabilities of the With-Profits Fund, for example for non-profit contracts.

Mutualisation

In general, IFRS 17 only requires a liability to be held for the current policyholders at each valuation. However, in addition, IFRS 17 acknowledges the "mutualisation" feature of with-profits funds whereby the cash flows of some contracts may affect or be affected by the cash flows of other contracts. In recognition of this feature, IFRS 17 also permits a liability to be held that represents the share of the surplus assets in the With-Profits Fund attributable to current or future policyholders.

Future cash flows of the with-profits groups of insurance contracts – impact of mutualisation

Surpluses may arise from some with-profits contracts, 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 may be utilised to meet deficits arising on other with-profits contracts or to enhance the benefits payable to current or future policyholders. In order to recognise this feature of the With-Profits Fund, the liabilities for each with-profits group of insurance contracts includes the policyholders' share of the expected future surpluses/deficits, where the expected future surpluses/deficits are given by:

- The discounted value of the amounts that will be charged to policies;
- Less: the discounted value of future shareholder transfers, gross of tax; and
- Less: the discounted value of other costs directly attributable to the group of insurance contracts.

Future cash flows – additional amounts payable to current or future policyholders

The liability for the additional amounts payable to current or future policyholders will be a key judgement and is expected to be equal to around 90% of the fair value of the other underlying items in the With-Profits Fund. The fair value of these underlying items includes the fair value of the non-profit contracts in the With-Profits Fund.

1 Basis of preparation and significant accounting policies continued

Discount rates

The Group will determine the adjustment for illiquidity using either a top-down or a bottom-up approach. 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. However, it is not required 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 intends to apply the top-down approach for annuities contracts and the bottom-up approach for all other contracts, including with-profits.

Measurement – risk adjustment for non-financial risk

Different approaches are expected to be used within the industry to estimate the risk adjustment for non-financial risk, including a confidence level technique or a cost of capital technique.

For all lines of business, the Group will use a confidence level technique under which a probability distribution of the expected present value of future cash flows from the contracts is estimated and the risk adjustment for non-financial risk is calculated as the excess of the value at risk at the target confidence level over the expected present value of the future cash flows.

The Group has set the compensation it requires for uncertainty arising from non-financial risk over the period of coverage equivalent to the 75th percentile over a 1-year time horizon. This is a key judgement.

The risk adjustment will reflect the impact of diversification of non-financial risks within each entity in the Group but not diversification of risks between entities.

Measurement – CSM

The CSM is subject to different measurement requirements depending on whether it relates to groups of contracts that are classified as being with or without direct participation features. Insurance and investment contracts with direct participation features are contracts for which the entity expects to pay the policyholder a substantial share of the returns on the underlying items.

For the Group's business all contracts that are in the scope of IFRS 17 and that are without direct participation features will apply the General Measurement Model (GMM). These primarily consist of the non-profit annuity and non-profit protection lines of business.

The contracts with direct participation features will use the Variable Fee Approach (VFA). These are expected to comprise the with-profits business, including PruFund, and unit-linked business.

A key difference between the GMM and VFA measurement models is that adjustments to the VFA CSM reflect prevailing market conditions, giving some alignment between the movements in asset and liability values. In contrast, adjustments to the GMM CSM are determined using prospective financial assumptions and discount rates that are fixed ("locked-in") at initial recognition.

Under the General Measurement Model the carrying amount of CSM is adjusted to reflect the following changes:

- Effect of new contracts added to the group of contracts;
- Interest accreted on the carrying amount of CSM, measured at the locked-in rate;
- Changes in cash flows arising from non-financial risk that relate to future service;
- Effect of any currency exchange differences on the CSM; and
- Recognition of insurance revenue for services provided in the year.

Under the Variable Fee Approach the CSM is adjusted to reflect the following changes:

- Effect of new contracts added to the group of contracts;
- Change in the entity's share of the fair value of underlying items;
- Changes in cash flows that relate to future service, including the effect of the time value of money and financial risk not arising from the underlying items;
- Effect of any currency exchange differences on the CSM; and
- Recognition of insurance revenue for services provided in the year.

1 Basis of preparation and significant accounting policies continued

Some of the adjustments to the CSM for the Variable Fee Approach listed above are determined by reference to changes in the "variable fee", which represents the value of the entity's interest in the contracts. For with-profits business, the variable fee is determined as the discounted value of future shareholder transfers, gross of tax, plus the shareholders' share of the expected future surpluses/deficits, where the expected future surpluses/deficits are given by:

- The discounted value of the amounts that will be charged to policies;
- Less: the discounted value of future shareholder transfers, gross of tax; and
- Less: the discounted value of other costs directly attributable to the group of insurance contracts.

The shareholders' share is expected to be around 10%, mirroring the key judgement that the policyholders' share is expected to be around 90%.

Insurance revenue for services provided in the year is recognised by reference to "coverage units", which represent the quantity of services provided. For non-profit annuities that are already in payment the coverage units are determined as the annual annuity benefit payable. This is consistent with the conclusion published on this topic by the IASB's Interpretation Committee (IFRIC) in 2022. For the majority of the with-profits contracts the coverage units are defined as the maximum of the benefit payable on death and the asset share, as this best represents the insurance and investment service being provided. The exception is with-profits annuity contracts in payment, for which the coverage units are defined as the annual annuity benefit payable.

For a profitable group of contracts the value of the CSM at inception equals the present value of the expected net inflow. This results in no income or expenses being recognised for the group of contracts at their initial recognition. Conversely, for a group of contracts that is loss making (or "onerous") at inception, the CSM is set to zero and the expected net outflow is immediately recognised as a loss. A loss component is established with value equal to the net outflow.

Transition to IFRS 17

IFRS 17 requires that the changes in accounting policies arising from adopting the new standard, at 1 January 2022, must be applied using a fully retrospective approach unless it is not practicable to do so. Under the fully retrospective approach the Group will:

- Identify, recognise and measure each group of insurance contracts, investment with DPF contracts and reinsurance contracts held as if IFRS 17 had always applied;
- Derecognise previously reported balances that would not have existed if IFRS 17 had always applied (including IFRS 4-related deferred acquisition costs, and the unallocated surplus of the With-Profits Fund); and
- Recognise any resulting net difference in equity, after allowing for any deferred tax adjustment.

Where it is impracticable to apply a fully retrospective approach to a group of contracts, then the Group will, as permitted under IFRS 17, use either the modified retrospective approach or the fair value approach.

The Group expects to apply the following approaches to valuing the CSM on transition to IFRS 17[i]:

Transition approach	Applied for
Fully Retrospective Approach	With-profits business written 2020-2021 Non-Profit protection in Poland written 2020-2021 Rothesay annuity reinsurance treaty[ii]
Modified Retrospective Approach	90:10 with-profits business written 2004-2019
Fair Value Approach	With-profits business written before 2004 All other contracts written up to 2021 All other reinsurance treaties incepted up to 2021

i The approach to be used for PruProtect business is still to be confirmed. As this business is fully reinsured, the impact of PruProtect contracts on shareholder equity at transition to IFRS 17 is not significant.

ii The Rothesay Part VII transfer in December 2021 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 the Fully Retrospective Approach.

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 has not been collected, or has not been 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.
- Where the fully retrospective approach is impracticable for the valuation of a portfolio of insurance contracts written then it will also be impracticable for the valuation of associated reinsurance portfolio as measurement requires similar considerations.

1 Basis of preparation and significant accounting policies 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 will apply 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 will determine 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 will be assessed based on information at 1 January 2022.

Groups of contracts valued under the modified retrospective approach will contain contracts issued more than one year apart.

90:10 with-profits business written 2004-2019

For groups of with-profits contracts issued between 2004 and 2019 transitioning under the modified retrospective approach, the Group will determine 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 will be estimated by reference to the release of risk for similar contracts that the Group issues at 1 January 2022.

If the calculation results in a CSM, the Group will measure 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 will be determined by comparing the remaining coverage units at 1 January 2022 with coverage units prior to 1 January 2022.

If the calculation results in a loss component then the Group will adjust the loss component to nil and increase the liability for remaining coverage excluding the loss component by the same amount.

Fair value approach

Under the fair value approach, the CSM (or the loss component) at 1 January 2022 will be determined as the difference between the fair value of a group of contracts at that date and the fulfilment cash flows at that date. The Group will measure the fair value of the contracts as the sum of:

- The best estimate of the liability, determined using a discounted cash flow technique; 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 an amount to reflect the risk around the quantum of future shareholder transfers.

The key judgements are in the assumptions used to set the best estimate of the liability, such as longevity assumptions, assumed asset mix for annuities, and discount rates, and the compensation a market participant would require for taking on the obligation, in particular the level of capital assumed to be held, the assumed cost of holding the capital, and the level of compensation required to reflect the risk in relation to future shareholder transfers.

The fair value will be 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 will determine 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 will contain contracts issued more than one year apart. For GMM under the fair value approach, locked-in discount rates and financial assumptions, as applied after transition, will be determined at 1 January 2022.

1 Basis of preparation and significant accounting policies continued

Comparison with IFRS 4

The timing of profit recognition will change 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 prudence 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 represents the excess of the fund's assets over policyholder liabilities that are yet to be appropriated between policyholders and shareholders with no allocation to equity. There is no unallocated surplus under IFRS 17 although IFRS 17 does allow a liability to be held for the policyholders' share of the surplus assets in the With-Profits Fund. Under IFRS 17 there will be equity for the first time relating to the With-Profits Fund.

Overall quantitative impact on the Group

The Group will apply IFRS 17 for the first time at 1 January 2023. As a result of the requirement to restate comparative information presented, the date of transition to IFRS 17 for the Group is 1 January 2022. The standard will, as detailed above, bring significant changes to the accounting for insurance and reinsurance contracts and is expected to have a material impact on the Group's consolidated financial statements in the period of initial application.

The Group has estimated the impact that the initial application of IFRS 17 will have on the consolidated financial statements at 31 December 2021/1 January 2022. The quantitative assessment is preliminary as not all of the IFRS 17 transition work is finalised, and the application of some elements of IFRS 17 to the Group's open with-profits business is complex. The final impact of adopting IFRS 17 may change as:

- the Group is continuing to refine the new accounting processes, methodology and internal controls in applying IFRS 17; and
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Group finalises its adoption of IFRS 17.

Although the quantitative assessment is preliminary, it may be reasonably estimated that on transition to IFRS 17 equity will increase by at least £1.5bn at 1 January 2022, from £5.3bn to £6.8bn.

Shareholder equity is expected to increase as the reduction in equity driven by the CSM established to defer previously recognised profits on the annuity portfolio is more than offset by the recognition as equity of part of the surplus assets in the With-Profits Fund. The equity in the With-Profits Fund represents the shareholders' assumed share of the surplus assets in the fund in accordance with the requirements of IFRS 17 and is not immediately available for distribution to shareholders. Transfers from the With-Profits Fund to shareholders will continue to be derived from the cost of bonuses (or equivalent) added to with-profits contracts.

The Group is currently unable to set an upper limit for the impact on equity at 1 January 2022 as there is insufficient certainty in the outcome of the judgements that remain, for with-profits business in particular.

Adjusted operating profit will continue to be the Group's non-GAAP alternative performance measure. The definition of adjusted operating profit is currently being refined for IFRS 17, to ensure that it continues to provide an accurate reflection of the Group's underlying business performance.

The Group will publish restated comparative information on adoption of IFRS 17 in the 2023 interim financial statements.

1 Basis of preparation and significant accounting policies continued

1.2.2.3 Other

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 2023, although it is anticipated that the effective date will be pushed back to no earlier than 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
- The Disclosure Initiative: Accounting Policy Requirements (Amendments to IAS 1), issued in February 2021 and effective from 1 January 2023
- Definition of Accounting Estimates (Amendments to IAS 8), issued in February 2021 and effective from 1 January 2023
- Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12), issued in May 2021 and effective from 1 January 2023
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16), issued in September 2022 and effective from 1 January 2024.

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.

1.3 Key judgements in applying accounting policies

A full list of the Group's significant accounting policies is provided in Section 1.5 of this Note. 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 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 the 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	31
Classification of insurance and investment contracts	IFRS 4 requires contracts that transfer significant insurance risk to be accounted for as insurance contracts. Judgement is required to determine whether contracts written by the Group transfer significant insurance risk. Judgement is also required in the case of certain contracts, both investment and insurance, which provide an additional benefit in addition to guaranteed benefits to determine whether they meet the criteria to be considered as discretionary participation features.	1.5.2	26
Recognition of deferred tax asset	IAS 12 requires deferred tax 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 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.	1.5.16	9

1 Basis of preparation and significant accounting policies continued

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. The following table sets out the assets and liabilities measured using 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 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 the assumed rates of policyholder mortality, maintenance expenses and the valuation rate of interest used when establishing policyholder liabilities for annuities and also the assumptions used in determining the allowance for persistency and maintenance expenses within the policyholder liabilities other than annuities.	1.5.2	26, 33
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.	1.5.4, 1.5.14	19, 32
Determination of the 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.	1.5.17	12
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.	1.5.15	17
Valuation of intangibles acquired at acquisition	Valuation of intangibles acquired as part of a business combination are based on various assumptions around future business growth and appropriate discount rates which can have a material impact on the valuation.	1.5.18	12

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 68 to 89. Key areas of focus are: goodwill impairment assessment (see Note 12.1), and the valuation approach for level 3 assets and liabilities (see Note 32.3.1).

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.

1 Basis of preparation and significant accounting policies continued

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 With-Profits Fund through investments, including venture capital business, 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 income statement and its share of movements in other comprehensive income is 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 fee if the fund manager is a Group company, however, the management fee 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.

Consolidation assessment is performed in line with the following principles:

- 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; and
- 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.

1 Basis of preparation and significant accounting policies continued

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 focusing on aspects such as scope of discretion that can be applied by general partners in making investment decisions, substantive removal rights held by limited partners and relative concentration of holding between the limited 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 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 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.

1.5.2 Insurance and investment contracts

i Classification
Contracts written by the Group's insurance operations are classified as either insurance contracts or investment contracts. Contracts that transfer significant insurance risk to the Group are classified as insurance contracts. Judgement is applied in assessing whether the features of a contract give rise to the transfer of significant insurance risk. This assessment is based on a readily identifiable scenario which is used to determine if there would be a significant difference in the contract's cash outflows if the insured event occurs. This judgement is made at inception and is not revisited.

Contracts that transfer financial risk to the Group but not significant insurance risk are classified as investment contracts.

Some contracts, both insurance and investment, contain discretionary participation features (DPF) representing the contractual right to receive additional benefits as a supplement to guaranteed benefits that: (i) are likely to be a significant portion of the total contract benefits; (ii) have amount or timing contractually at the discretion of the insurer; and (iii) are contractually based on asset or fund performance. These contracts are classified as insurance or investment contracts with DPF.

Some contracts written by the Group allow policyholders to invest in both with-profits and unit-linked funds. The Group accounts for the components of these hybrid contracts as if they are separate contracts on the basis that the underlying investment options give different outcomes to the policyholder and place different obligations on the Group.

The measurement of contracts depends on their classification. Those classified as either insurance contracts or investment contracts with DPF are accounted for as insurance contracts under IFRS 4. Investment contracts without DPF are accounted for as financial instruments under IAS 39. The classification of the Group's insurance operations' main contract types is shown below:

Type of contract	Classification
With-profits	Insurance contract/Investment contract with DPF
Unit-linked with significant insurance risk	Insurance contract
Unit-linked without significant insurance risk	Investment contract
Annuities	Insurance contract

1 Basis of preparation and significant accounting policies continued

ii Measurement: Insurance contracts and investment contracts with discretionary participation features

Insurance contracts and investment contracts with DPF are accounted for under IFRS 4: Insurance Contracts, which permits the continued usage of previously applied Generally Accepted Accounting Practice (GAAP) that has been grandfathered by the Group. In particular, the Group uses a modified statutory basis, which is based on grandfathered regulatory requirements prior to the adoption of Solvency II, adjusted in accordance with the Statement of Recommended Practice issued by the Association of British Insurers (ABI SORP, issued in December 2005 (amended in December 2006 and withdrawn with effect for accounting periods beginning on or after 1 January 2015)). The Group's With-Profits Fund is measured on a realistic basis in accordance with FRS 27: Life Assurance. The measurement of the liabilities arising from the main types of contracts in scope of IFRS 4 is described further below.

Valuation of the With-Profits Fund's liabilities

The policyholder liabilities for the Group's With-Profits Fund are measured under FRS 27: Life Assurance, which requires the use of the realistic value of liabilities. In aggregate, this has the effect of placing a market-consistent value on the liabilities of with-profits contracts, which reflects the amounts expected to be paid based on the current value of investments held by the With-Profits Fund and current circumstances.

The realistic basis requires the value of with-profits policyholder liabilities to be calculated as the sum of:

(i) a with-profits benefits reserve (WPBR); and

(ii) future policy-related liabilities (FPRL).

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

The FPRL must include a market-consistent valuation of costs of guarantees, options and smoothing, less any related charges, and this amount is determined using a stochastic approach.

In line with FRS 27 requirements, the non-profit annuities business within the With-Profits Fund is valued on the statutory basis, i.e. including margins for adverse deviations (as set out in "Valuation of annuity contracts"). The with-profits liabilities are valued on a realistic basis and therefore allow for future enhancements to the policyholders. Following this approach unadjusted would lead to an inconsistency in the net assets, as such, the present value of future profits from the relevant non-profit annuities is applied as an adjustment to the with-profits liabilities. Annually, when the enhancements to asset shares are committed to, the value of the enhancements is transferred from the Unallocated surplus of the With-Profits Fund to with-profits liabilities.

The shareholders' share of future costs of bonuses is included within the liabilities for unallocated surplus. The shareholders' share of profit is recognised in line with the distribution of bonuses to policyholders.

Unallocated surplus of the With-Profits Fund

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

Valuation of unit-linked contracts

For unit-linked contracts, the attaching liability reflects the unit value obligation (using actuarial funding where relevant) and, in the case of contracts with significant insurance risk which are therefore classified as insurance contracts, allowance for expense, persistency and mortality risk. The latter component, calculated using a discounted cash flow approach, is determined by applying mortality assumptions on a basis that is appropriate for the policyholder profile and including a margin for prudence in the mortality, persistency and expense assumptions.

Valuation of annuity contracts

The annuity liabilities are calculated as the expected value of future annuity payments and expenses, discounted by a valuation interest rate, having prudent regard to the assumptions used. The primary assumptions required are in respect of policyholder mortality, credit assumptions within the valuation interest rate and future expense levels.

Liability adequacy test

The Group performs adequacy testing on its liabilities in respect of insurance contracts and investment contracts with DPF to ensure that the carrying amounts (net of related deferred acquisition costs) are sufficient to cover current estimates of future cash flows. Any deficiency is immediately charged to the income statement.

1 Basis of preparation and significant accounting policies continued

iii Investment contracts without discretionary participation features

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 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.

The Group incurs various incremental, directly attributable acquisition costs relating to the investment management element of these contracts which 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 income statement, as the service is provided in accordance with IFRS 15.

1.5.3 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 statement of financial position as goodwill. Expenses related to acquiring a new business are charged to the income statement in the year in which they are incurred. Where there is deferred consideration payable to former shareholders of a business acquired, those individuals become employees, and payment is dependent on those individuals remaining in service from the date of acquisition; this deferred consideration does not form part of the purchase consideration and is accounted for as employment costs over the service period. Income and expenses of acquired entities are included in the 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.

1.5.4 Financial assets and liabilities

i Classification and measurement

The classification of financial assets and liabilities is determined at initial recognition. The Group classifies derivative financial assets and financial liabilities as held for trading.

Financial assets which are managed and whose performance is evaluated on a fair value basis are designated at FVTPL. The vast majority of the Group's financial assets fall into this category, as the assets are held to back policyholder liabilities. Managing assets on a fair value basis maximises returns to policyholders and avoids accounting mismatches in the income statement.

The Group accounts for the equity release outstanding mortgage loans as financial assets designated at FVTPL on the statement of financial position and the value of the no negative equity guarantee (NNEG) is included in determining the overall fair value of the loans. The existence of the NNEG is not sufficient for the equity release mortgage loans to transfer significant insurance risk to the Group, and therefore the lifetime mortgages are not considered an insurance contract.

Financial assets classified as held for trading or at FVTPL, and financial liabilities classified as held for trading, are measured at fair value with all changes thereon being recognised in investment return in the income statement.

The Group's financial assets which are not derivatives or designated at FVTPL are classified as loans or receivables. These instruments comprise non-quoted investments that have fixed or determinable payments and include loans collateralised by mortgages, deposits, loans to policyholders and other unsecured loans and receivables. These investments are initially recognised at fair value plus transaction costs. Subsequently, these instruments are carried at amortised cost using the effective interest method and are subject to impairment reviews. Where there is objective evidence that a loss event has occurred, the Group measures the amount of the impairment loss by comparing the amortised cost with the present value of its estimated future cash flows discounted at the original effective interest rate.

1 Basis of preparation and significant accounting policies continued

The Group uses the trade date method to account for regular purchases and sales of financial assets. Transaction costs are expensed as incurred.

Financial liabilities other than derivatives are classified according to the substance of the contractual arrangements. The Group designates financial liabilities at FVTPL if these instruments are managed and their performance evaluated on a fair value basis. Investment contract liabilities without discretionary participation features are designated at FVTPL, with changes in fair value recognised within benefits and claims in the consolidated income statement. The fair value liability is equal to the total value of units allocated to the policyholders, based on the bid price of the underlying assets.

Third party interest in consolidated funds which are classified as financial liabilities are designated as FVTPL to match the treatment of the underlying assets in the funds. Changes in fair value are recognised in movements in third party interest in consolidated funds in the consolidated income statement.

Financial liabilities which are not designated at FVTPL are measured at amortised cost using the effective interest method.

ii 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 32.

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 32.

1.5.5 Earned premiums, policy fees and claims paid

Premiums and annuity considerations for conventional with-profits policies and other protection-type life insurance and annuity policies are accounted for when due. For unit-linked business and unitised with-profits policies, premiums are accounted for when the liabilities arising from the premiums are recognised. These amounts exclude premium taxes and similar duties where the Group collects and settles taxes borne by the client.

Policy fees charged on linked and unitised with-profits policies for mortality, asset management and policy administration are recognised as revenue as related services are provided.

Claims paid include maturities, annuities, surrenders and deaths. Maturity claims are recorded as charges on the policy maturity date. Annuity claims are recorded when each annuity instalment becomes due for payment. Surrenders are charged to the income statement when paid and death claims are recorded when notified.

1.5.6 Reinsurance

The business seeks to reduce loss exposure by reinsuring certain levels of risk in various areas of exposure with other insurance companies or reinsurers. Where the reinsurance contracts transfer significant insurance risk to the reinsurer, the asset arising from the contract is classified as Reinsurance assets. Reinsurance also includes the impact of longevity swaps.

The measurement of reinsurance assets is consistent with the measurement of the underlying direct insurance contracts. Reinsurance premiums paid and reinsurance recoveries on claims paid are recognised when the corresponding insurance premium is received from the policyholder and when the reinsured claims are incurred, respectively.

These items are disclosed separately on the face of the consolidated income statement. Any gains or losses arising on the purchase of reinsurance contracts are immediately recognised in the consolidated income statement.

If a reinsurance asset is impaired, the Group reduces the carrying amount accordingly and recognises that impairment loss in the income statement. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not receive all amounts due to it under the terms of the contract, and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

Where the reinsurance contract does not transfer significant insurance risk to the reinsurer, the contract is classified as a financial instrument and is measured at FVTPL.

1 Basis of preparation and significant accounting policies continued

1.5.7 Fee income

Revenue arising from contracts with clients 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. Other fees and commissions such as from the provision of financial advice to clients 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 client.

No significant judgements are applied on the timing or transaction price or the determination of the costs incurred to obtain or fulfil a contract.

1.5.8 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 for instruments held at amortised cost. Dividends on equity securities are recognised on the ex-dividend date and rental income is recognised on an accruals basis.

1.5.9 Deferred acquisition costs

The Group incurs various costs in acquiring new contracts. For investment contracts without DPF, incremental, directly attributable acquisition costs are capitalised and amortised in line with the related revenue as required by IFRS 15. For certain insurance contracts, acquisition costs which include both incremental acquisition costs and other costs of acquiring and processing new business are also capitalised and amortised in line with the emergence of projected margins. These costs (deferred acquisition costs) are recognised as an asset in the statement of financial position.

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 or projected margins, the carrying value is written down to the recoverable amount and the related impairment charge recorded in the consolidated income statement. For insurance contracts written within the UK regulated With-Profits Fund, in accordance with FRS 27 there is no deferral of acquisition costs and these costs are expensed as incurred. Similarly, for insurance contracts where all of the acquisition costs are recovered upfront, such as annuities, no acquisition costs are deferred.

1.5.10 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 classified as "held for trading" and are measured at FVTPL. Movements in fair value are 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 IAS 39 and has had no fair value or cash flow hedges for the years ended 31 December 2022 and 31 December 2021.

1.5.11 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 or cancelled, or has expired.

1 Basis of preparation and significant accounting policies continued

1.5.12 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 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 statement of financial position.

1.5.13 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 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.

1.5.14 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 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 valuation standards of the Royal Institution of Chartered Surveyors (RICS). Each property is externally valued at least once every three years. On disposal of an investment property, the difference between the net proceeds received and the carrying amount is recognised in the income statement.

1.5.15 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 in the Group's 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.

The plan assets of the Group's pension schemes include several insurance contracts that have been issued by 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 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 Basis of preparation and significant accounting policies continued

1.5.16 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 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.

1.5.17 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 cash-generating unit or group of cash-generating units. Goodwill is allocated to a group of cash-generating units when it cannot be allocated on a non-arbitrary basis to individual cash-generating units. Goodwill impairment charges are recognised immediately in the income statement.

1 Basis of preparation and significant accounting policies continued

1.5.18 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. Intangibles 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.

Intangibles 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 income statement.

1.5.19 Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand, deposits held at call with banks, money market funds and debt securities with less than 90 days' maturity from the date of acquisition.

1.5.20 Dividends

Dividends are recognised when the obligation becomes certain, i.e. 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.

1.5.21 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.

1.5.22 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.

1.5.23 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.

1.5.24 Capital redemption reserve

The capital redemption reserve arises from the cancellation of shares following the share buy-back programme.

1 Basis of preparation and significant accounting policies continued

1.5.25 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 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 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 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 income statement and the actual cost to the Group is transferred to retained earnings.

1.5.26 Discontinued operations

The Group classifies an entity (or a component of an entity) within the Group as a discontinued operation if it has either been disposed of, or is classified as held for sale, and

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

The analysis of the comprehensive income and cash flows relating to discontinued operations is disclosed separately in the consolidated financial statements.

1.5.27 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.

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, 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 Basis of preparation and significant accounting policies continued

1.5.28 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 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 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.

	2022		2021	
	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)	**1.17**	**1.13**	1.16	1.19
Indian Rupee (INR)	**97.05**	**99.53**	101.70	100.68
Polish Złoty (PLN)	**5.49**	**5.29**	5.31	5.46
South African Rand (ZAR)	**20.17**	**20.59**	20.34	21.62
Swiss Franc (CHF)	**1.18**	**1.12**	1.26	1.23
US Dollar (USD)	**1.24**	**1.21**	1.38	1.35

1 Basis of preparation and significant accounting policies continued

1.5.29 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 may be 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. 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".

1.5.30 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[i]
Group occupied property	20 – 50 years
Right of use asset	2 – 50 years
Other tangible assets	2 – 40 years

i 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 significant accounting policies continued

1.5.31 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 will retain a non-controlling interest in its former subsidiary after the sale.

Income and expenses of subsidiaries sold during the year are included in the 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 income statement under IAS 21: The Effects of Changes in Foreign Exchange Rates.

1.5.32 Provisions and contingent assets and liabilities

Provisions are recognised in the 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.

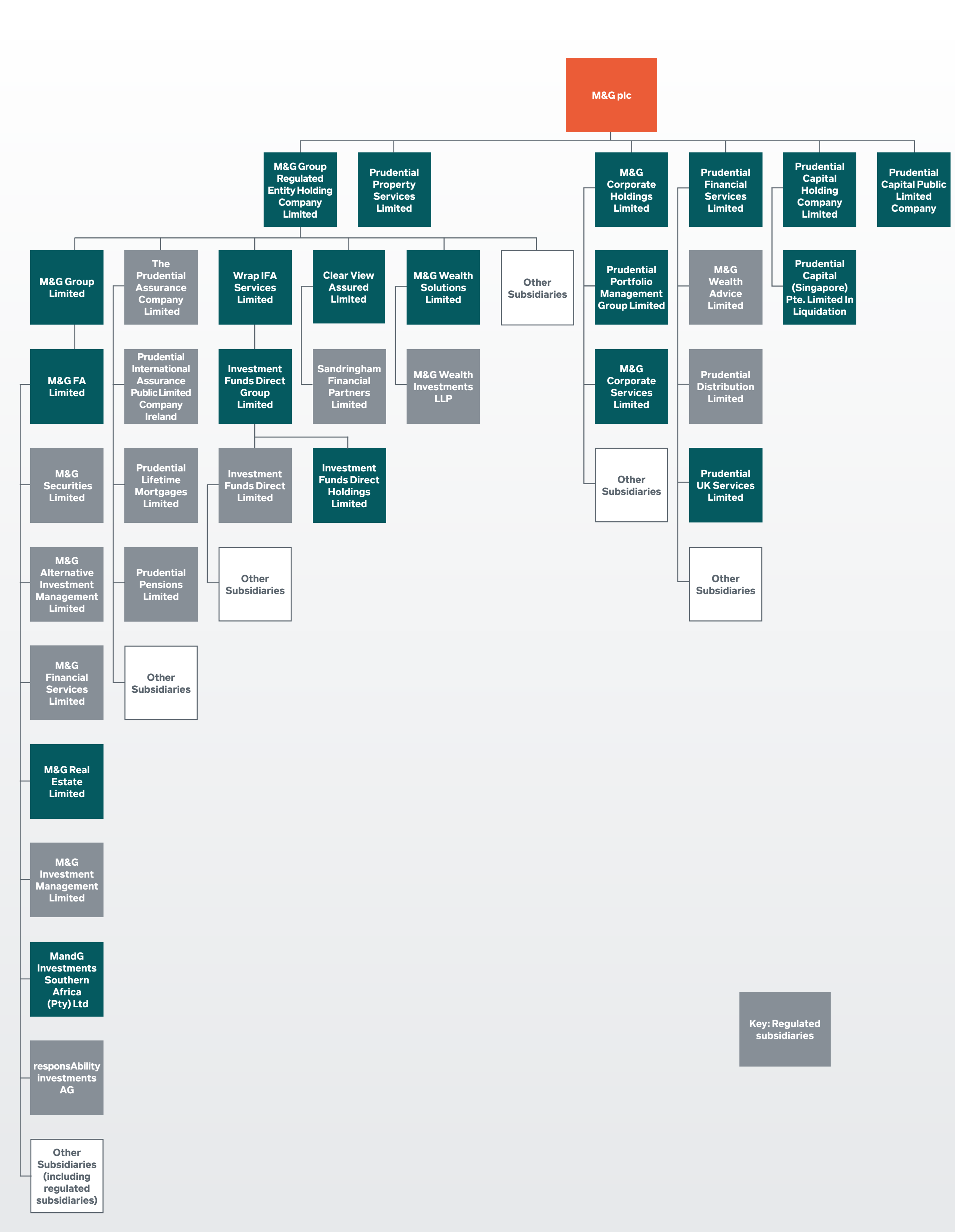
Contingent liabilities are possible obligations of the Group where the timing and amount are subject to significant uncertainty. Contingent liabilities are not recognised in the consolidated statement of financial position, unless they are assumed by the Group as part of a business combination. Contingent 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 2022 and gives an overview of the composition of the Group. M&G plc is the holding company of the Group.



A complete list of the Group's related undertakings comprising subsidiaries, joint ventures, associates and other significant holdings is contained within Note 40.

2 Group structure and products continued

2.2 Corporate transactions

2.2.1 Sandringham Financial Partners acquisition

On 6 January 2022, the Group, via M&G Group Regulated Entity Holding Company Limited, (M&G REH), acquired a 100% holding in Clear View Assured Limited, the holding company for Sandringham Financial Partners Limited (Sandringham) for a purchase consideration of £73m.

Sandringham is part of M&G Wealth within our Retail and Savings segment and at acquisition brought to M&G a well-established national financial services advisory business with around 180 advisory partners working on behalf of over 10,000 clients and more than £2.4bn of assets under advice to complement our existing advisory business, The Advice Partnership.

There is a further deferred amount payable to former shareholders who are in the employment of Sandringham of £8.6m over 2 years from the date of acquisition provided the shareholders remain in service. This does not form part of the purchase consideration and will be accounted for as employment costs over the service period.

As at the acquisition date the consideration, net assets and intangible assets acquired and resulting goodwill were as follows:

	£m
Total cash consideration	**73**
Fair value of net assets acquired:	
Accrued investment income and other debtors	1
Cash and cash equivalents	4
Total assets	**5**
Accruals, deferred income and other liabilities	(3)
Total liabilities	**(3)**
Acquired intangible assets:	
Trade name	7
Customer-related	15
Deferred tax on assets not on balance sheet	(6)
Goodwill	**55**

The goodwill of £55m represents the synergies to be achieved through the creation of a fully integrated M&G Wealth business to complement the Group's well established asset management offering.

The Sandringham trade name was recognised on acquisition at fair value of £6.7m. The valuation was based on the relief from royalty rates method and the key assumptions used in measuring the fair value were discount rate and royalty rate.

A customer-related intangible was also recognised at fair value of £14.6m. The valuation was based on the multi-period excess earning method and the key assumptions used in measuring the fair value were discount rate and net attrition.

Sandringham was acquired at the start of the reporting period. The revenue and loss before tax included in the consolidated income statement in respect of Sandringham were £26.7m and £9.9m respectively. The loss before tax includes the impact of deferred consideration accounted for as employment costs.

2.2.2 responsAbility acquisition

On 3 May 2022, the Group, via M&G FA Limited, acquired a 94.8% holding in responsAbility Investments AG (responsAbility).

responsAbility is a Swiss private asset manager which is a leader in impact investing focused on private debt and private equity across emerging markets, with £2.9bn of assets under management. Following completion of the acquisition responsAbility's 200 employees joined M&G, the business will remain headquartered in Zurich creating a new investment hub for M&G Investments. responsAbility will sit within the Asset Management segment of the business.

The purchase consideration was subject to an adjustment for net assets between the date of the Share Purchase Agreement and the acquisition date. The Group retained call options and the seller retained put options over the remaining holding where the exercise price was fixed at inception. For accounting purposes, at the balance sheet date, the Group has accounted for the transaction on the basis it controls 100% of responsAbility. A liability has been recognised in respect of the Group's obligation under the call option arrangement and included within Note 29. The Group acquired the remaining shares on 21 February 2023.

2 Group structure and products continued

As at the acquisition date the consideration, net assets and intangible assets acquired and resulting goodwill were as follows:

	£m
Total cash consideration	**148**
Fair value of net assets acquired:	
Accrued investment income and other debtors	**41**
Cash and cash equivalents	**13**
Total assets	**54**
Accruals, deferred income and other liabilities	**(22)**
Total liabilities	**(22)**
Acquired intangible assets:	
Trade name	**9**
Customer-related	**36**
Deferred tax on assets not on balance sheet	**(8)**
Goodwill	**79**

The goodwill of £79m represents the benefits of the acquisition which introduces various revenue synergies including leveraging from the Group's capabilities to grow responsAbility's UK institutional presence and the EU bank distribution relationships outside Switzerland. Additionally, the acquisition includes revenue benefits from launching new thematic products from an ESG perspective.

The responsAbility trade name was recognised on acquisition at fair value of £9.3m. The valuation was based on the relief from royalty rates method and the key assumptions used in measuring the fair value were discount rate and royalty rate.

A customer-related intangible was also recognised at fair value of £36.3m. The valuation was based on the multi-period excess earning method and the key assumptions used in measuring the fair value were discount rate and net attrition.

The revenue and profit before tax included in the consolidated statement of comprehensive income since the date of acquisition were £22.7m and £0.4m respectively. The revenue and profit before tax for the year ended 31 December 2022 for responsAbility was £35.6m and £2.3m respectively.

2.2.3 TCF Fund Managers LLP acquisition

On 17 February 2022, the Group acquired the total membership interest of TCF Fund Managers LLP (TCF), a provider of model portfolio services for a purchase consideration of £17m. The acquisition of TCF, has enabled us to launch an M&G Wealth branded range of model portfolios in April 2022. From 5 September 2022 TCF has been renamed M&G Wealth Investments LLP.

The acquisition was structured as follows:

- 99.9999% of the membership interest was acquired by M&G Wealth Solutions Limited (M&G WSL), formerly called M&G Wealth Investments Limited, which is a wholly owned subsidiary of M&G REH;
- 0.0001% of the membership interest was acquired by Pru Limited, a wholly owned subsidiary of M&G Corporate Holding Limited (M&G CHL).

The purchase consideration comprised of £15m of cash consideration paid at completion and a deferred consideration of £2m paid on 7 November 2022 on the satisfactory completion of various activities linked to transition by the previous owners. The purpose of the deferred consideration was to ensure a smooth transition to M&G operations and not to retain services of the existing members over a longer duration.

The acquisition has been accounted for using the acquisition method. On acquisition goodwill of £16m and a customer-related intangible asset of £1m were recognised.

Sensitivities in regard to valuation of intangibles from the acquisitions completed in the year are provided in Note 12.2.

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

A description of the main insurance and investment contracts 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 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 Group structure and products continued

2.3.1 With-profits contracts

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

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

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

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

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

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

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

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

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

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

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

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

Policyholders are protected from some of the 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 WPSF on 1 April 2021. As SAIF was a closed sub-fund, 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, and at the date of the merger, surplus assets of the SAIF fund were allocated to the SAIF policyholders, with the enhancement due to be paid through a terminal bonus at the point of claim. Shareholders have no entitlement to the profits of this fund.

The Group's main exposure to guaranteed annuity options arises through with-profits contracts originally written in SAIF. More detail on the provisions held in respect of guaranteed annuity options is provided in Note 26.1.1.

2.3.2 Unit-linked contracts

Unit-linked contracts are contracts where the value of the policy is linked to the value of underlying investments (such as collective investment schemes, internal investment pools or other property) or fluctuations in the value of underlying investments or indices. Investment risk associated with the product is primarily borne by the policyholder. Some unit-linked contracts provide an element of insurance coverage, such as a benefit payable on death in excess of the value of the units, and these contracts are classified as insurance contracts and accounted for under IFRS 4 (see Note 26).

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 Group structure and products continued

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 (referred to as "non-profit annuities") and with-profits annuities. Some non-profit annuities have been written in the With-Profits Fund, and profits relating to this business accrue to the With-Profits Fund.

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

2.4 Changes in consolidation of collective investment and other vehicles

As part of the normal course of business the Group, primarily via the With-Profits Fund, invests and disinvests in a number of collective investment and other investment vehicles. The Group continually assess whether these investments meet the requirements of IFRS10 – Consolidated Financial Statements and apply the accounting policy explained in 1.5.1 in those assessments. In any given year the investment vehicles moving in and out of the scope of consolidation have a limited impact on the Group's financial statements. However, during the year ended 31 December 2022 a number of investment vehicles have been deconsolidated which have had more significant impacts.

There were four vehicles which were deconsolidated – M&G European Property Fund (MEP), Sky Fund I LP, Sky Fund V Onshore LP and Harben 2017-1 plc. Sky Fund I LP was disposed of by PAC and the other three entities were re-assessed for control following a dilution of their holdings and deconsolidated. In the case of MEP and Sky Fund V LP, the Group holdings are now treated as investments in associates at FVTPL and disclosed in Note 14 – Investments in joint ventures and associates. The main impacts of the deconsolidation of these entities are shown in the impacted notes which include – Note 15 – Property, plant and equipment, Note 16 – Investment property, Note 18 – Loans, Note 27 – Subordinated liabilities and other borrowings.

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 client type, with supplementary information being given by product type. The Chief Operating Decision Maker for the Group is the Group Executive Committee.

3.1 Operating segments

The Group's operating segments are:

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 Open Ended Investment Companies (OEICs) or Luxembourg domiciled Sociétés d'Investissement à Capital Variable (SICAVs) and have access to a broad range of actively managed investment products, including Equities, Fixed Income, Multi-Asset and Real Estate. The Group serves these 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 significant proportion of Retail and Savings assets it manages.

3 Segmental analysis continued

Retail and Savings

Our Retail and Savings operating segment includes M&G Wealth, our Heritage business and Other Retail and Savings business which primarily relates to our international savings business.

Wealth

M&G Wealth provides 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 clients 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 Heritage business, no regular or final bonuses are declared. Instead, policyholders participate in profits by means of an increase in their investment, which grows in line with an EGR.

Heritage

The Heritage business includes individual and corporate pensions, annuities, life, savings and investment products. The majority of the products in the Heritage business are closed to new clients but may accept further contributions from existing policyholders[1]. The annuity contracts include: level annuities, which provide a fixed annuity payment; fixed increase annuities, which incorporate a periodic automatic fixed increase in annuity payments; and inflation-linked annuities, which incorporate a periodic increase based on a defined inflation index. Some inflation-linked annuities have minimum and/or maximum increases relative to the corresponding inflation index.

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

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

The Heritage business includes the closed SAIF business which participates in profits on a 100:0 basis with no shareholder profit transfers. Shareholders are entitled to asset management fees. This business is now included in PAC's main with-profits sub fund following the merger with the SAIF with-profits sub fund on 1 April 2021 as discussed in Note 2.3.1.3.

Other Retail and Savings

Our savings businesses based in Ireland (Prudential International Assurance plc) and Poland are included within Other Retail and Savings.

The Group's other reportable segment is:

Corporate Centre

Corporate Centre includes central corporate costs and debt costs.

3.2 Adjusted operating profit before tax methodology

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

For the Group's fee-based business, 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.

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

(i) Cash flow hedges[2]: those instruments that are held to mitigate volatility in the Group's IFRS results by being explicitly matched to the expected future shareholder transfers.

(ii) Capital hedges: instruments that hedge the economic present value of shareholder transfers on a Solvency II basis, to optimise the capital position.

1 The Group accepts new members to existing Corporate Pension schemes and writes a small number of new annuity policies with clients who have a pension issued by PAC.

2 These cash flow hedges do not constitute hedge accounting arrangements under IAS 39.

3 Segmental analysis continued

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

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

Certain adjustments that are considered to be non-recurring or strategic, or due to short-term movements not reflective of longer-term performance are made to IFRS profit before tax. Adjustments are in respect of short-term fluctuations in investment returns, costs associated with fundamental Group-wide restructuring and transformation, profits or losses arising on corporate transactions and profit/(loss) before tax from any discontinued operations, and impairment and amortisation in respect of acquired intangibles.

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

Short-term fluctuations in investment returns

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

(i) Short-term temporary movements in the fair value of instruments held to mitigate equity risk in the with-profits shareholder transfer, including both cash flow and capital hedges.

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

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

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

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

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

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 and other costs

Restructuring and other costs 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.

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.

3 Segmental analysis continued

3.3 Analysis of Group adjusted operating profit before tax by segment

For the year ended 31 December	2022 Asset Management £m	Retail and Savings £m	Corporate Centre £m	Total £m
Fee based revenues[i]	1,051	295	–	1,346
Annuity margin	–	227	–	227
With-profits shareholder transfer net of hedging and other gains/(losses)[ii]	–	354	–	354
Adjusted operating income	1,051	876	–	1,927
Adjusted operating expenses	(763)	(295)	(107)	(1,165)
Other shareholder loss	(5)	(9)	(200)	(214)
Share of profit from joint ventures and associates[iii]	–	–	–	–
Adjusted operating profit attributable to non-controlling interests	(19)	–	–	(19)
Adjusted operating profit/(loss) before tax	264	572	(307)	529
Short-term fluctuations in investment returns[iv]	–	(2,484)	–	(2,484)
Amortisation and impairment of intangible assets acquired in business combinations	(8)	(27)	–	(35)
Restructuring and other costs[v]	(74)	(77)	4	(147)
IFRS profit/(loss) before tax and non-controlling interests attributable to equity holders before tax	182	(2,016)	(303)	(2,137)
IFRS profit before tax attributable to non-controlling interests[vi]	19	–	–	19
Profit/(loss) before tax attributable to equity holders	201	(2,016)	(303)	(2,118)

i Of the fee-based revenues, £306m (2021: £303m) relates to revenues that Asset Management earned from the Retail and Savings segment. Other presentational differences when compared to the fee income in Note 5 include the netting of certain items that have a nil profit impact in adjusted operating profit, and the inclusion of certain revenue presented elsewhere within the IFRS income statement.

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

iii Excludes adjusted operating profit from joint ventures in the With-Profits Fund.

iv Market conditions have led to significant losses from short-term fluctuations in investment returns for the year ended 31 December 2022. These losses primarily comprise a £1,301m loss (2021: £99m loss) from fair value movements on surplus assets in the annuity portfolio and a £989m loss (2021: £103m loss) on interest rate swaps purchased to protect PAC's Solvency II capital position against falls in interest rates, both due to significant rising yields in the period. Additionally losses of £223m (2021: £39m) arose on gilts pledged as collateral. These losses were partly offset by a positive movement on the hedging instruments held to protect the future shareholder transfers from falling equity markets which moved to a £104m gain (2021: £248m loss) as a result of falls in the US and European equity markets.

v Restructuring and other costs 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 included in the analysis of administrative and other expenses in Note 6 which include costs allocated to the Policyholder. In the year to 31 December 2022, restructuring and other costs includes £17m (2021: £48m) in respect of our future ways of working and associated changes to our office space, and £32m (2021: £45m) of costs in relation to the integration of M&G Wealth platform business. Included in the Corporate Centre is a reversal of impairment recognised in respect of our future ways of working of £6m (2021: £29m recognition of impairment) which is presented in impairment of property, plant and equipment in the analysis of administrative and other expenses in Note 6.

vi 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

For the year ended 31 December	2021 Asset Management £m	Retail and Savings £m	Corporate Centre £m	Total £m
Fee based revenues[i]	976	278	–	1,254
Annuity margin	–	369	–	369
With-profits shareholder transfer net of hedging and other gains/(losses)[ii]	–	268	–	268
Adjusted operating income	976	915	–	1,891
Adjusted operating expenses	(672)	(296)	(95)	(1,063)
Other shareholder profit/(loss)	17	41	(159)	(101)
Share of profit from joint ventures and associates[iii]	6	–	–	6
Adjusted operating profit attributable to non-controlling interests	(12)		–	(12)
Adjusted operating profit/(loss) before tax	315	660	(254)	721
Short-term fluctuations in investment returns[iv]	5	(542)	–	(537)
Profit on disposal of businesses and corporate transactions	51	(16)	–	35
Amortisation and impairment of intangible assets acquired in business combinations	(4)	–	–	(4)
Restructuring and other costs[v]	(51)	(67)	(28)	(146)
IFRS profit/(loss) before tax and non-controlling interests attributable to equity holders before tax	316	35	(282)	69
IFRS profit attributable to non-controlling interests[vi]	12	–	–	12
Profit/(loss) before tax attributable to equity holders	328	35	(282)	81

The Group has a widely diversified client base. There are no clients whose revenue represents greater than 10% of fee-based revenues.

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

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

3.4 Reconciliation of adjusted operating income and adjusted operating expenses to total revenues and expenses as presented in the consolidated income statement

Adjusted operating income and adjusted operating expenses are component parts of the Group's key alternative performance measures (APM) of adjusted operating profit before tax and as a result they are also considered APMs. They differ significantly from IFRS total income and total expenses as they exclude policyholder items which have an equal and opposite effect on IFRS revenue and charges included within the consolidated income statement, such as premiums, policyholder investment returns, benefits and claims, movement in unallocated surplus of the With-Profits Fund and movements in third party interest in consolidated funds. The most significant difference between adjusted operating income and adjusted operating expenses and IFRS total income and total expenses, relates to the impact that market movements have on insurance and investment contract liabilities including the unallocated surplus of the With-Profits Fund which has no overall impact on IFRS profit but is included in determining both IFRS total income and IFRS total expenses.

Other differences include presentational differences between reporting requirements and the determination of adjusted operating income and adjusted operating expenses, as set out in the definitions in section 1.1 of the supplementary information, including:

- Administrative expenses in the annuity and with-profits portfolio, which are netted against adjusted operating income in the analysis of Group adjusted operating profit before tax by segment;
- Revenues which are required to meet the tax charge or credit attributable to policyholder returns, which are not included in the analysis of Group adjusted operating profit before tax by segment.

As a result of these differences we do not use IFRS total income and IFRS total expenses to explain our results and we do not consider them to be comparable to adjusted operating income and adjusted operating expenses which are components of the adjusted operating profit measure.

3 Segmental analysis continued

The following table is provided to reconcile adjusted operating income and adjusted operating expenses, presented in the tables above, to total IFRS revenue net of reinsurance and total IFRS charges net of reinsurance respectively, as presented in the consolidated income statement:

For the year ended 31 December	2022 Income £m	2022 Expense £m	Restated[i] 2021 Income £m	Restated[i] 2021 Expense £m
Adjusted operating income and operating expenses	**1,927**	**(1,165)**	1,891	(1,063)
Items presented as other shareholder profit/(loss)	**(46)**	**(168)**	89	(190)
Benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance	**(8,435)**	**8,435**	13,083	(13,083)
Movements in third party interests in consolidated funds	**(547)**	**547**	1,019	(1,019)
Annuities and With-Profits Fund administration expenses	**1,056**	**(1,056)**	617	(617)
Renewal commission	**152**	**(152)**	163	(163)
Share of profit from joint ventures and associates	**–**	**–**	6	–
Tax (credit)/charge attributable to policyholder returns	**(379)**	**–**	707	–
Short-term fluctuations in investment returns	**(2,484)**	**–**	(537)	–
Profit on disposal of business and corporate transactions	**–**	**–**	35	–
Restructuring and other costs	**–**	**(147)**	–	(146)
Amortisation and impairment of intangible assets acquired in business combinations	**–**	**(35)**	–	(4)
Other presentational items	**211**	**(249)**	699	(780)
IFRS total income and (total expenses)	**(8,545)**	**6,010**	17,772	(17,065)

i Following a review of the Group's presentation of tax positions within consolidated investment funds, comparative amounts have been restated from those previously reported. The restatement has had no impact on profit for the year or net assets. See Note 1.1 for further information.

3.5 Total external revenue by geography

The following table provides a geographical segmentation of total earned premiums, net of reinsurance and other income (includes Fee income and Other income), as presented in the consolidated income statement:

For the year ended 31 December	2022 £m	2021 £m
United Kingdom:		
Earned premiums, net of reinsurance	**5,199**	3,213
Other income	**504**	571
Total United Kingdom	**5,703**	3,784
Rest of the world:		
Earned premiums, net of reinsurance	**829**	552
Other income	**579**	527
Total Rest of the world	**1,408**	1,079
Total:		
Earned premiums, net of reinsurance	**6,028**	3,765
Other income	**1,083**	1,098
Total	**7,111**	4,863

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 the Asset Management business has been updated in the year to reflect the domicile of where revenues are generated rather than the domicile of the client.

3 Segmental analysis continued

Total non-current, non-financial assets by geographical location

The following table provides a geographical segmentation of non-current, non-financial assets as presented in the consolidated statement of financial position:

For the year ended 31 December	2022 £m	2021 £m
UK	**14,460**	15,435
Rest of the world	**6,382**	8,977
Total	**20,842**	24,412

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.

4 Investment return

For the year ended 31 December	Note	2022 £m	2021 £m
Interest income arising from:			
Cash and cash equivalents		**25**	4
Deposits with credit institutions		**192**	5
Loans[i]		**193**	208
Debt securities		**2,010**	1,967
		2,420	2,184
Dividend income		**2,234**	2,072
Income from investment property:			
Rental income	16	**884**	973
Net (losses)/gains on investment property	16	**(1,477)**	1,258
		(593)	2,231
(Losses)/gains on financial instruments at fair value through profit and loss arising from:			
Equity securities and pooled investment funds		**(2,876)**	9,298
Loans		**(771)**	10
Debt securities		**(12,637)**	(2,732)
Derivatives		**(3,983)**	(56)
		(20,267)	6,520
Net (impairment)/reversal of impairment on loans held at amortised cost		**(12)**	22
Foreign exchange gains/(losses)		**562**	(120)
Total investment return		**(15,656)**	12,909

i Total interest arising on loans of £193m for the year ended 31 December 2022 (2021: £208m) comprises £91m (2021: £109m) arising on loans held at fair value through profit or loss and £102m (2021: £99m) arising on loans held at amortised cost.

5 Fee income

The following table disaggregates fee revenue by segment:

For the year ended 31 December	2022 £m	2021 £m
Management fees	**870**	860
Rebates	**(24)**	(28)
Performance fees and carried interest	**41**	18
Total Asset Management fee income	**887**	850
Investment contracts without discretionary participation features	**42**	50
Platform fees	**31**	34
Advice fees	**77**	49
Total Retail and Savings fee income	**150**	133
Total fee income	**1,037**	983

6 Administrative and other expenses

For the year ended 31 December	Note	2022 £m	Restated[i] 2021 £m
Staff and employment costs		**791**	731
Acquisition costs incurred:			
Insurance contracts and investment contracts with DPF		**132**	119
Other contracts		**15**	23
Acquisition costs deferred:			
Insurance contracts and investment contracts with DPF	13	**(10)**	(8)
Other contracts	13	**(6)**	(6)
Amortisation of deferred acquisition costs:			
Insurance contracts and investment contracts with DPF	13	**6**	6
Other contracts	13	**10**	7
Impairment of deferred acquisition costs	13	**1**	4
Depreciation of property, plant and equipment	15	**142**	123
Impairment of property, plant and equipment[ii]	15	**3**	102
Amortisation of intangible assets	12	**34**	25
Impairment of goodwill and intangible assets	12	**25**	–
Restructuring costs		**228**	193
Interest expense		**136**	161
Commission expense		**190**	200
Investment management fees		**134**	165
Property-related costs		**165**	192
Other expenses		**814**	766
Total administrative and other expenses		**2,810**	2,803

i Following a review of the Group's presentation of tax positions within consolidated investment funds, comparative amounts have been restated from those previously reported. The restatement has had no impact on profit for the year or net assets. See Note 1.1 for further information.

ii Includes impairment of certain property, plant and equipment held by the Group's infrastructure capital private equity vehicles of £11m (2021: £73m). Includes reversal of impairment recognised in respect of our future ways of working of £6m (2021: £29m recognition of impairment) included in 'restructuring and other costs' within the Segmental Analysis in Note 3.

In addition to the interest expense shown above of £136m (2021: £161m), the interest expense incurred in respect of subordinated liabilities for the year ended 31 December 2022 was £162m (2021: £160m). This is shown as finance costs in the consolidated income statement.

7 Staff and employment costs

The average number of staff employed by the Group during the year was:

For the year ended 31 December	2022	2021
Average staff headcount	**7,637**	6,993

The following table shows the staff costs and other employee-related costs:

For the year ended 31 December	Note	2022 £m	2021 £m
Wages and salaries		**746**	665
Social security costs		**91**	79
Share-based payments	38	**34**	40
Pension costs:			
Defined benefit schemes	17	**25**	36
Defined contribution schemes		**59**	52
Total staff and employment costs		**955**	872

Information in respect of Directors' remuneration is provided in the Directors' remuneration report on pages 119 to 159.

The table below provides a breakdown of staff and employment costs charged within administrative and other expenses:

For the year ended 31 December	2022 £m	2021 £m
Staff and employment costs	**791**	731
Acquisition costs	**65**	77
Restructuring costs	**82**	59
Other expenses	**17**	5
Total staff and employment costs	**955**	872

8 Fees payable to the auditor

The following table shows the auditor remuneration, excluding VAT. For the year ended 31 December 2022 total fees payable are in relation to those payable to PwC with the comparative period information relating to fees payable to KPMG.

For the year ended 31 December	2022 £m	2021 £m
Fees payable to the Company's auditor and its associates for audit and assurance services:		
Fees payable to the Company's auditors for the audit of the Company's individual and consolidated financial statements	**4.1**	2.1
Audit of subsidiaries pursuant to legislation	**10.1**	6.5
Audit-related assurance services	**2.0**	2.7
Other assurance services	**0.5**	0.6
Total fees payable to the auditor	**16.7**	11.9

The increase in fees payable to the auditor is primarily driven by audit fees relating to IFRS 17 and the change in scope as a result of change in auditors for the audit of subsidiaries.

For more information on non-audit services, refer to the Audit Committee Report and page 115.

Additional fees payable to the auditor

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 consolidated financial statements.

For the year ended 31 December 2021, fees of £0.3m were paid to KPMG in relation to their audit of the Group's defined benefit pension schemes. For the year ended 31 December 2022 these schemes were not audited by the Group's auditor.

9 Tax

9.1 Tax (credited)/charged to the consolidated income statement

Following a review of the Group's presentation of tax positions within consolidated investment funds, comparative amounts have been restated from those previously reported throughout this tax note. The restatement has had no impact on profit for the year or net assets. See Note 1.1 for further information.

For the year ended 31 December	2022 £m	Restated 2021 £m
The total tax (credit)/charge comprises:		
Current tax:		
Current year	**158**	427
Adjustments in respect of prior years	**(19)**	4
Total current tax	**139**	431
Deferred tax:		
Origination and reversal of temporary differences in the year	**(1,017)**	288
Adjustments in respect of prior years	**–**	(23)
Total deferred tax	**(1,017)**	265
Total tax (credit)/charge	**(878)**	696

The tax (credit)/charge above, comprising current and deferred tax, can be analysed as follows:

For the year ended 31 December	2022 £m	Restated 2021 £m
UK tax	**(1,062)**	528
Overseas tax	**184**	168
Total tax (credit)/charge	**(878)**	696

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

The loss before tax reflected in the consolidated income statement for the year ended 31 December 2022 of £(2,497)m (2021: profit before tax of £788m (restated)) comprises profit attributable to equity holders and pre-tax profit attributable to policyholders of unit-linked and with-profits funds and unallocated surplus of With-Profits Fund. This is the formal measure of profit before tax under IFRS but it is not the result attributable to equity holders.

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

	2022			Restated 2021		
For the year ended 31 December	Equity holders £m	Policyholders £m	Total £m	Equity holders £m	Policyholders £m	Total £m
(Loss)/profit before tax	**(2,118)**	**(379)**	**(2,497)**	81	707	788
Tax credit/(charge)	**499**	**379**	**878**	11	(707)	(696)
(Loss)/profit after tax for the year	**(1,619)**	**–**	**(1,619)**	92	–	92

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9 Tax continued

9.1.2 Tax reconciliation

For the year ended 31 December	2022 Equity holders £m	2022 Policyholders £m	2022 Total £m	Restated 2021 Equity holders £m	Restated 2021 Policyholders £m	Restated 2021 Total £m
(Loss)/profit before tax	**(2,118)**	**(379)**	**(2,497)**	81	707	788
Tax (credit)/charge based on the standard UK corporation tax rate of 19% (2021: 19%)	**(403)**	**(72)**	**(475)**	15	134	149
Impact of profits earned in jurisdictions with different statutory rates to the UK	**3**	**–**	**3**	2	–	2
(weighted average rate for equity holders is 19% (2021: 19%))						
Recurring items						
Different basis of taxation – policyholders	**–**	**(283)**	**(283)**	–	586	586
Deductions not allowable for tax purposes[i]	**30**	**–**	**30**	15	–	15
Income and gains not taxable or taxable at concessionary rates[ii]	**(8)**	**–**	**(8)**	(10)	–	(10)
Effects of results of joint ventures and associates[iii]	**–**	**–**	**–**	(1)	–	(1)
Changes in recognition of deferred tax and effect of unrecognised tax losses[iv]	**(7)**	**–**	**(7)**	(16)	–	(16)
Other	**1**	**–**	**1**	3	–	3
Non recurring items						
Adjustments in relation to prior periods[v]	**5**	**(24)**	**(19)**	(6)	(13)	(19)
Changes in local statutory tax rates or laws[vi]	**–**	**–**	**–**	(3)	–	(3)
Impairment of goodwill	**5**	**–**	**5**	–	–	–
Impact of deferred tax recognised at 25% on current year movements[vii]	**(125)**	**–**	**(125)**	–	–	–
Non-taxable income – MGSA acquisition[viii]	**–**	**–**	**–**	(10)	–	(10)
Tax (credit)/charge	**(499)**	**(379)**	**(878)**	(11)	707	696

i Of the £30m, £22m (2021: £3m) relates to the non-taxable adjustment in relation to a historic joint venture agreement in respect of long term assurance business. The remaining amount relates to expenses that are not deductible for tax purposes, primarily in the UK.

ii Of the 2022 amount of (£8m), (£7m) relates to non-taxable dividend income in the UK (2021: £nil). For 2021, the balance primarily relates to a non-taxable income arising on the reversal of provision that was not tax deductible in previous periods.

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

iv The total amount of £(7)m related to the remeasurement of DTA on capital losses carried forward (2021: £(3)m). The remaining tax benefit in 2021 of (£13m) related to the utilisation of capital losses on which no deferred tax asset was recognised.

v The equity holders impact of £5m (2021: (£6m)) relates to changes in estimates of prior year positions. The policyholder benefit of (£24m) primarily relates to an agreement reached with HMRC to amend the application of income allocation methodology within the life insurance business (2021: (£13m) primarily due to changes in estimates to deferred tax assets).

vi In June 2021, the standard rate of Corporation Tax in the UK was changed from 19% to 25% with effect from 1 April 2023. Accordingly, the UK deferred tax balances were revalued to reflect the change in rate.

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%.

viii Non-taxable income relates to the £51m income recognised on the acquisition of the additional 0.13% shareholding in MGSA.

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 2022 is the UK Corporation tax rate of 19% as the majority of the Group's profits are earned and taxed in the UK.

9.1.3 Factors that may impact the future tax rate

Changes in tax laws and rates may affect recorded deferred tax assets and liabilities and our effective tax rate in the future. 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 rate increase, there will be an increase to our effective tax rate for periods from 2023 onwards. 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.

9 Tax continued

The Group has unused tax losses carried forward of £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 late 2021, the Organisation for Economic Co-operation and Development (OECD) announced agreement had been reached on a sweeping overhaul of the international tax system and the G-20 leaders endorsed the plan during the Leaders' Summit. The plan follows a Two-Pillar framework which sets out the principles of a solution to tackle the tax challenges arising from an increasingly globalised and digital global economy. Pillar One addresses taxing rights and distribution of profits, and Pillar Two the imposition of a global minimum tax rate of 15% on large companies. For Pillar One purposes, the Group is not expected to be within the scope of the rules due to the exclusion for regulated financial services and/or beneath the scoping thresholds. For Pillar Two, there is no financial services exemption and the Group is above the size threshold (€750m of revenue) and will be in scope. It was originally announced the Pillar Two rules to be effective for 2023, however, this has been deferred until 2024. The Group generates its profits predominantly in the UK and the remainder mainly in jurisdictions with a tax rate higher than 15%. Whilst the Two-pillar framework is not expected to have a significant impact on the future effective tax rate, much will depend upon the framework to be finalised by the OECD, the enacted legislation, and the impact on the insurance and asset management industries, in particular, treatment of investment in fund structures and policyholder attributes. During the period, the Group were heavily engaged in the consultations with the UK Government through Industry bodies and this work is expected to continue in 2023. The Group is reviewing the current set of OECD rules, draft UK legislation, updates to the framework and awaiting the OECD's anticipated release of the final framework, as well as new legislation expected to be released by governments implementing this new tax regime and will assess the potential impact of new legislation during 2023.

9.1.4 Use of accounting estimates and judgements

The calculation of the Group's tax charge involves a degree of estimation and judgement. The recognition of a deferred tax asset is a key judgement in applying the Group's accounting policies and 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 their 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.

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

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.

9.1.5 Tax charged to other comprehensive income

For the year ended 31 December	2022 £m	2021 £m
The tax charge booked to other comprehensive income, current and deferred tax, comprises:		
Actuarial gains on defined benefit pension schemes	**7**	19
Total tax charge to other comprehensive income	**7**	19

9.1.6 Tax credited to equity

For the year ended 31 December	2022 £m	2021 £m
The tax credit booked to shareholders' equity, current and deferred tax, comprises:		
Subordinated liabilities	**–**	(21)
Share-based payments	**(6)**	(4)
Total tax credit to equity	**(6)**	(25)

9 Tax continued

9.2 Deferred tax

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.

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 consolidated statement of financial position as the below amounts are presented before offsetting asset and liability balances where there is a legal right to set-off and an intention to settle on a net basis.

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. 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.

	2022								
For the year ended 31 December	Unrealised gains/ (losses) on investments[i] £m	Life tax transitional adjustments[ii] £m	Other short-term timing differences[iii] £m	Deferred acquisition costs[iv] £m	Defined benefit pensions £m	Capital allowances £m	Tax losses carried forward[v] £m	Share-based payments and deferred compensation £m	Total £m
Assets	3	–	162	42	8	25	13	20	273
Liabilities	(1,410)	(26)	(49)	(3)	(48)	(37)	–	–	(1,573)
As at 1 January 2022	(1,407)	(26)	113	39	(40)	(12)	13	20	(1,300)
Income statement	414	26	27	(2)	8	28	515	1	1,017
Equity and other comprehensive income	–	–	–	–	(7)	–	–	5	(2)
Other movements/foreign exchange[vi]	173	–	(14)	–	–	(3)	–	–	156
As at 31 December 2022	(820)	–	126	37	(39)	13	528	26	(129)
Assets	5	–	163	38	–	28	528	26	788
Liabilities	(825)	–	(37)	(1)	(39)	(15)	–	–	(917)
As at 31 December 2022	(820)	–	126	37	(39)	13	528	26	(129)

i 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, i.e. 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.

ii 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 are now fully reversed at 31 December 2022.

iii The closing balance at 31 December 2022 primarily comprises £83m (2021: £88m) of deferred tax assets on subordinated debt together with a £33m (2021: £22m: MGSA) deferred tax liability on customer-related intangible assets arising on the acquisitions of MGSA, Sandringham & responsAbility. The remaining balance primarily relates to deferred tax assets on employee related compensation.

iv 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.

v The tax losses carried forward at 31 December 2022 relate to £82m (2021: £66m) of UK capital losses and £2,024m (2021: £nil) of trading losses. Under UK law, both trading capital losses can be carried forward indefinitely. A deferred tax asset has been recognised in full on the trading losses and a proportion of these carried forward losses as the Group considers it is probable that sufficient future UK taxable profit and capital gains will be available against which these losses can be utilised.

vi Other movements of £173m included within Unrealised gains/losses on investments, £187m is associated with the deconsolidation of the M&G European Property Fund in the period and £14m relates to foreign exchange movements. Short-term timing differences of £14m relates to deferred tax liabilities on intangible assets recognised as part of the acquisition of Sandringham Financial Partners Limited and responsAbility Investments AG; (2021: £22m – acquisition of MGSA).

9 Tax continued

For the year ended 31 December	Restated 2021 Unrealised gains/ (losses) on investments[i] £m	Life tax transitional adjustments[ii] £m	Other short-term timing differences £m	Deferred acquisition costs[iv] £m	Defined benefit pensions £m	Capital allowances £m	Tax losses carried forward[v] £m	Share-based payments and deferred compensation £m	Total £m
Assets	7	2	115	51	13	13	10	15	226
Liabilities	(1,093)	(70)	(11)	(6)	(30)	(34)	–	–	(1,244)
As at 1 January 2021	(1,086)	(68)	104	45	(17)	(21)	10	15	(1,018)
Income statement	(321)	42	11	(6)	(4)	9	3	1	(265)
Equity and other comprehensive income	–	–	20	–	(19)	–	–	4	5
Other movements/foreign exchange	–	–	(22)	–	–	–	–	–	(22)
As at 31 December 2021	(1,407)	(26)	113	39	(40)	(12)	13	20	(1,300)
Assets	3	–	162	42	8	25	13	20	273
Liabilities	(1,410)	(26)	(49)	(3)	(48)	(37)	–	–	(1,573)
As at 31 December 2021	(1,407)	(26)	113	39	(40)	(12)	13	20	(1,300)

The Group's net deferred tax liability at 31 December 2022 of £129m changed significantly from the deferred tax liability at 31 December 2021 of £1,300m, representing an overall net movement of £1,171m. The significant movement is predominantly due to a decrease of deferred tax liability (DTL) arising on unrealised losses in the period together with an increase in the recognition of deferred tax assets (DTA) on carry forward UK tax losses of £515m, of which £508m relates UK income tax losses arising in the period of £2,024m.

The recognition of a 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 2022 of £528m (2021: £13m) comprises of £508m in relation to UK income tax losses (2021: £nil) and £20m in respect of UK capital losses (2021: £13m). 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.

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% 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 2035 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 2037. 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 2028.

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, after netting, arise in the following parts of the Group:

	Deferred tax assets		Deferred tax liabilities	
	2022 £m	2021 £m	2022 £m	Restated 2021 £m
UK	**594**	68	**(465)**	(960)
Overseas	**57**	51	**(315)**	(459)
As at 31 December	**651**	119	**(780)**	(1,419)

9 Tax continued

9.2.1 Unrecognised deferred tax

Tax losses and temporary differences
At the end of the reporting period, the Group have unused tax losses of £481m (2021: £512m) and temporary differences of £nil (2021: £2m) for which no deferred tax asset is being recognised. The Group's unused tax losses primarily relate to capital losses in the UK of £472m (2021: £502m). No deferred tax asset is recognised on the unused tax losses of £481m as it is not considered 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 reinvested indefinitely or remitted to the UK free from further taxation by virtue of parent company exemptions on dividends from subsidiaries and on capital gains on disposal. Consequentially, the Group does not consider there to be any significant taxable temporary differences associated with investments in subsidiaries, branches, associates and joint arrangements.

9.3 Current tax and other tax assets and liabilities

	Current tax assets		Current tax liabilities	
	2022 £m	2021 £m	2022 £m	Restated 2021 £m
Corporation tax	**254**	347	**(58)**	(300)
Other taxes	**35**	28	**(55)**	(59)
As at 31 December	**289**	375	**(113)**	(359)

Movements on corporation tax current tax assets and liabilities were as follows:

For the year ended 31 December	2022 £m	Restated 2021 £m
Net corporation tax asset as at 1 January	**47**	146
Income statement	**(139)**	(431)
Reserves movement for the period	**1**	1
Corporation tax paid	**268**	332
Other movements	**19**	(1)
Foreign exchange	**–**	–
Net corporation tax asset as at 31 December	**196**	47
Corporation tax assets	**254**	347
UK	**213**	316
Overseas	**41**	31
Corporation tax liabilities	**(58)**	(300)
UK	**(24)**	(251)
Overseas	**(34)**	(49)
Net corporation tax asset as at 31 December	**196**	47

All corporation tax assets and liabilities are expected to be settled within 12 months.

One of the Group's subsidiaries, The Prudential Assurance Company Limited, 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 2022, PAC has recognised a total policyholder tax credit of £114m (2021: £114m) in respect of its claim against HMRC. Of this amount, £40m (2021: £40m) has been paid by HMRC leaving a tax recoverable balance of £74m (2021: £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 2023 at which point PAC should receive full and final payment.

9 Tax continued

9.4 Change in corporation tax rate

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. Changes in tax laws and rates may affect recorded deferred tax assets and liabilities and our effective tax rate in the future. We expect that, in line with the rate increase, proposed, there will be an increase to our effective tax rate for periods from 2023 onwards.

10 Earnings per share

Basic earnings per share for the year ended 31 December 2022 was (66.0)p (2021: 3.3p) and diluted earnings per share was (66.0)p (2021: 3.2p). Basic earnings per share is based on the weighted average ordinary shares in issue after deducting treasury shares and shares held by the employee benefit trust. Diluted EPS is based on the potential future shares in issue resulting from exercise of options under the various share-based payment schemes in addition to the weighted average ordinary shares in issue. The weighted average ordinary shares in issue reflects the impact of the share buy-back during the year.

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

For the year ended 31 December	2022 £m	2021 £m
(Loss)/profit attributable to equity holders of the Company	**(1,632)**	83

For the year ended 31 December	2022 Millions	2021 Millions
Weighted average number of ordinary shares outstanding	**2,474**	2,542
Dilutive effect of share options and awards	**–**	33
Weighted average number of diluted ordinary shares outstanding	**2,474**	2,575

For the year ended 31 December	2022 Pence per share	2021 Pence per share
Basic (loss)/earnings per share	**(66.0)**	3.3
Diluted (loss)/earnings per share	**(66.0)**	3.2

As the Group has made a loss attributable to equity holders of the Company for the year ended 31 December 2022, the diluted earnings per share is the same as the basic earnings per share as it is not permissible for the diluted earnings per share to be greater than the basic earnings per share.

11 Dividends

	2022		2021	
For the year ended 31 December	Pence per share	£m	Pence per share	£m
Dividends relating to reporting period:				
First interim dividend – Ordinary	**6.2**	**154**	6.1	156
Second interim dividend – Ordinary	**13.4**	**310**	12.2	311
Total	**19.6**	**464**	18.3	467
Dividends paid in reporting period:				
Prior year's second interim dividend – Ordinary	**12.2**	**311**	12.2	310
First interim dividend – Ordinary	**6.2**	**154**	6.1	156
Total		**465**		466

Subsequent to 31 December 2022, the Board has declared a second interim dividend for 2022 of 13.4 pence per ordinary share and, an estimated £310m in total. The dividend is expected to be paid on 27 April 2023 and will be recorded as an appropriation of retained earnings in the financial statements at the time that it is paid. The final dividend amount per ordinary share is impacted by the share buy-back programme, see Note 22 for further details.

12 Goodwill and intangible assets

For the year ended 31 December	2022 Goodwill £m	2022 Other Intangibles £m	2022 Total £m	2021 Goodwill £m	2021 Other Intangibles £m	2021 Total £m
Cost						
At 1 January	**1,411**	**338**	**1,749**	1,375	255	1,630
Additions:						
Arising on acquisitions	**166**	**69**	**235**	38	87	125
Internally generated	**–**	**7**	**7**	–	7	7
Other purchases	**–**	**76**	**76**	–	47	47
Disposals and transfers	**(4)**	**(4)**	**(8)**	–	(54)	(54)
Foreign exchange differences	**7**	**4**	**11**	(2)	(4)	(6)
At 31 December	**1,580**	**490**	**2,070**	1,411	338	1,749
Accumulated amortisation and impairment						
At 1 January	**(20)**	**(114)**	**(134)**	(20)	(115)	(135)
Amortisation	**–**	**(34)**	**(34)**	–	(25)	(25)
Impairment	**(25)**	**–**	**(25)**	–	–	–
Disposals and transfers	**–**	**4**	**4**	–	26	26
Foreign exchange differences	**–**	**(4)**	**(4)**	–	–	–
At 31 December	**(45)**	**(148)**	**(193)**	(20)	(114)	(134)
Net book amount	**1,535**	**342**	**1,877**	1,391	224	1,615

For the year ended 31 December	Note	2022 £m	2021 £m
Goodwill is allocated to the following cash-generating units:			
Asset Management		**1,287**	1,191
M&G Wealth Platform		**13**	21
Other		**42**	–
Subsidiaries held by the With-Profits Fund		**193**	179
		1,535	1,391

12.1 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.

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.

12 Goodwill and intangible assets continued

Asset Management

The carrying value of Asset Management goodwill predominantly relates to that arising on the acquisition of M&G Group Limited and is split between the Wholesale Asset Management, Institutional Asset Management and Internal Asset Management cash-generating units. An impairment assessment was undertaken as at 31 December 2022 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 2025 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 client preference for sustainability and impact-focused 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 2022 in respect of goodwill arising on the Asset Management group of cash-generating units.

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 2026 and 2027, tapering the growth expected in 2025 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 2022 was 11% (2021: 14%) and is based on the cost of equity for the Asset Management business derived using the capital asset pricing model. A 50bps increase in the discount rate would result in the value in use decreasing by £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% as stated above and a long-term growth rate of 2%. A 50bps decrease in the long-term growth rate would result in the value in use decreasing by £122m. This would not result in any impairment charge being recorded for goodwill.

  In the previous year, a terminal multiplier of 13x was applied to the cashflows forecasted for the final year of the business plan to determine the cashflows beyond the projection period, based on expected price/earnings ratio in the sector.
- That asset management contracts continue on similar terms.

No reasonable change in assumptions stated above 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.

M&G Wealth Platform

During the year to 31 December 2022 an impairment of £25m has been recognised in respect of the M&G Wealth Platform cash-generating unit to bring the carrying value down to its recoverable amount which is its value in use of £106m. The M&G Wealth platform cash generating unit consists of the net assets and goodwill and other intangibles arising from the acquisition of Wrap IFA Services Limited, as well as an allocation of £16m of goodwill following the acquisition of Sandringham Financial Partners Limited, discussed in Note 2. 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 11%, a long-term growth rate of 2% and a terminal value EBITDA margin of 33%.

12 Goodwill and intangible assets continued

Other

Note 2.2 Corporate transactions provides detail on goodwill arising on subsidiaries acquired during 2022. None of the goodwill allocated to remaining cash-generating units is significant in comparison to the Group's total carrying amount of goodwill.

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 2022 (2021: £nil).

12.2 Intangible assets

Intangible assets comprise insurance contracts and client relationships acquired through business combinations, software, service concessions, royalties and licences.

Customer relationships and trade name arising on acquisitions during the year

During the year, customer relationships which have been recognised by the Group as part of the acquisition of Sandringham Financial Partners Limited, M&G Wealth Investments LLP (formerly TCF Fund Managers LLP) and responsAbility Investments AG. In addition, two trade names have been recognised by the Group as part of the acquisition of Sandringham Financial Partners Limited and responsAbility Investments AG.

The description of the separate intangible assets acquired, including their estimated useful life, is as follows:

Customer related intangible	Intangible asset type	Average useful life at acquisition date	Acquisition date	Fair value on acquisition date £m	Carrying value £m
Sandringham Financial Partners Limited	Trade name	10 years	6 January 2022	7	**6**
	Customer relationships	13 years	6 January 2022	15	**14**
M&G Wealth Investments LLP (Formerly TCF Fund Managers LLP)	Customer relationships	18 years	17 February 2022	1	**1**
responsAbility Investments AG	Trade name	10 years	3 May 2022	9	**9**
	Customer relationships	10 years	3 May 2022	36	**37**

All intangibles will be amortised on a straight line basis.

In arriving at the fair value of intangible assets acquired in business combinations, a number of assumptions and judgements are applied. The details in respect of material acquisitions during the financial year, with regard to assumptions and sensitivities to those assumptions, are presented below.

		responsAbility			Sandringham		
Intangible	Input	Assumption	Sensitivity	Impact on valuation (£m)	Assumption	Sensitivity	Impact on valuation (£m)
Trade name	Discount rate	12%	+100bps	–	10%	+100bps	–
	Royalty rate	3%	-50bps	(2)	2%	-50bps	(2)
Customer relationships	Discount rate	11%	+100bps	(3)	10%	+100bps	(2)
	Customer attrition	12.5% wholesale / 8.5% institutions	+100bps	–	2%	+70bps	(2)
	Client and market growth	2%	-100bps	(1)	15%	-100bps	(1)

13 Deferred acquisition costs

For the year ended 31 December	2022 Insurance contracts and investment contracts with DPF £m	2022 Other contracts £m	2022 Total £m	2021 Insurance contracts and investment contracts with DPF £m	2021 Other contracts £m	2021 Total £m
At 1 January	**58**	**36**	**94**	59	39	98
Additions	**10**	**6**	**16**	8	6	14
Amortisation to the income statement	**(6)**	**(10)**	**(16)**	(6)	(7)	(13)
Impairment	**–**	**(1)**	**(1)**	(2)	(2)	(4)
Foreign exchange differences	**–**	**1**	**1**	(1)	–	(1)
At 31 December	**62**	**32**	**94**	58	36	94

14 Investments in joint ventures and associates

14.1 Investments in joint ventures and associates accounted for using the equity method

As at 31 December	2022 £m	2021 £m
Investment in joint ventures	**413**	469
Investment in associates	**–**	–
Investments in join ventures and associates accounted for using the equity method	**413**	469

For the year ended 31 December	2022 £m	2021 £m
Share of profit from joint ventures	**38**	75
Share of profit from associates[i]	**–**	6
Share of profit from joint ventures and associates accounted for using the equity method	**38**	81

i Included within the year ended 31 December 2021 share of profit from associates is £6m from MGSA up to the acquisition date.

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 are reflected in the movement in the unallocated surplus of the With-Profits Fund and therefore do not affect shareholders' results.

Joint ventures are not considered to be material individually or in aggregate to the Group for the years ended 31 December 2022 and 31 December 2021. 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

On 4 July 2021, the Group acquired a controlling stake in MGSA. Until this date MGSA was recognised as an associate accounted for using the equity method.

14.2 Interests in 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 2022, the Group held 29.8% of MEP with a fair value of £1,143m. No other associates accounted for at FVTPL are considered individually material to the Group for the years ended 31 December 2022 and 31 December 2021.

The aggregate fair value of associates accounted for at FVTPL, including MEP, at 31 December 2022 was £1,850m (2021: £358m).

14.2.2 Joint ventures accounted for at FVTPL

The aggregate fair value of joint ventures accounted for at FVTPL at 31 December 2022 was £190m (2021: £77m). None of the joint ventures accounted for at FVTPL are considered individually material to the Group for the years ended 31 December 2022 and 31 December 2021.

15 Property, plant and equipment

Property, plant and equipment 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:

	2022				2021			
For the year ended 31 December	Right of use assets £m	Group occupied property £m	Other tangible assets £m	Total £m	Right of use assets £m	Group occupied property £m	Other tangible assets £m	Total £m
Cost								
At 1 January	**306**	**106**	**2,695**	**3,107**	292	159	1,968	2,419
Transfer to held for sale	**(7)**	**(1)**	**(196)**	**(204)**	–	–	–	–
Additions	**32**	**–**	**573**	**605**	22	–	770	792
Arising on acquisition of subsidiaries	**16**	**–**	**5**	**21**	5	–	2	7
Disposals and other	**(4)**	**(1)**	**(1,088)**	**(1,093)**	(12)	(47)	(7)	(66)
Foreign exchange differences	**3**	**2**	**151**	**156**	(1)	(6)	(38)	(45)
At 31 December	**346**	**106**	**2,140**	**2,592**	306	106	2,695	3,107
Accumulated depreciation and impairment								
At 1 January	**(88)**	**(19)**	**(464)**	**(571)**	(52)	(19)	(282)	(353)
Transfer to held for sale	**1**	**–**	**39**	**40**	–	–	–	–
Depreciation charge for the year	**(24)**	**(3)**	**(115)**	**(142)**	(26)	(3)	(94)	(123)
Arising on acquisition of subsidiaries	**–**	**–**	**(2)**	**(2)**	–	–	(2)	(2)
Reversal of impairment/(impairment)	**6**	**–**	**(9)**	**(3)**	(13)	(2)	(87)	(102)
Disposals and other	**1**	**–**	**52**	**53**	2	4	2	8
Foreign exchange differences	**(1)**	**(1)**	**(12)**	**(14)**	1	1	(1)	1
At 31 December	**(105)**	**(23)**	**(511)**	**(639)**	(88)	(19)	(464)	(571)
Net book amount	**241**	**83**	**1,629**	**1,953**	218	87	2,231	2,536

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 2022, £29m (2021: £33m) of right of use assets were held by the With-Profits Fund. During the year, the Group received £4m (2021: £4m) of income from subleasing right of use assets.

15.2 Other tangible assets

As at 31 December 2022, £1,513m (2021: £2,119m) of other tangible assets were held by the With-Profits Fund, of which £217m (2021: £563m) are assets under construction. The main movements in the year on assets under construction relate to additions of £70m less £412m of disposals. The other tangible assets within the With-Profits Fund relate primarily to infrastructure projects funded by the Group's consolidated private equity vehicles. During the year, two funds, Sky Fund I and Sky Fund V were deconsolidated following a sale of the fund and a change in control respectively. The deconsolidation of these entities is included within Disposals and other lines in the table above.

During the year £11m (2021: £73m) of impairment was 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	2022 £m	2021 £m
At 1 January	**19,698**	19,106
Transfer from/(to) held for sale	**24**	(947)
Additions:		
Resulting from property acquisitions	**2,279**	1,809
Resulting from expenditure capitalised	**420**	193
Disposals and other[i]	**(4,643)**	(1,310)
Net fair value (losses)/gains	**(1,477)**	1,258
Foreign exchange differences	**204**	(411)
At 31 December	**16,505**	19,698

i Included within disposals and other of £4,643m for the year ended 31 December 2022 is £3,955m associated with the deconsolidation of the M&G European Property Fund in the period.

For the year ended 31 December 2022, rental income from investment property was £884m (2021: £973m). Direct operating expenses, including repairs and maintenance arising from these properties for the year ended 31 December 2022 were £154m (2021: £190m). Direct operating expenses on investment property not generating rental income for the year ended 31 December 2022 was £13m (2021: £16m).

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	2022 £m	2021 £m
Less than 1 year	**468**	477
1 to 5 years	**1,477**	1,474
Over 5 years	**2,085**	2,391
Total minimum future rental income	**4,030**	4,342

17 Defined benefit pension schemes

17.1 Background and summary economic and IAS 19 financial positions

The Group operates three defined benefit pension schemes. The largest defined benefit scheme as at 31 December 2022 is the Prudential Staff Pension Scheme (PSPS), which accounts for 82% (2021: 80%) 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.

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. The net economic pension surplus is attributed 70% to the With-Profits Fund and 30% to the Group's shareholders.

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 these schemes is recognised in full. As at 31 December 2022 the SASPS and M&GGPS schemes are in surplus based on the IAS 19 valuation. Under IAS 19, non-transferable insurance policies issued by a related party do not qualify as plan assets. Therefore, as at 31 December 2021, investments in insurance policies issued by Prudential Pensions Limited, (a subsidiary of the Group, through which it invested in certain pooled funds), were deducted from the M&GGPS surplus, on an IAS 19 basis. However all holdings were divested during 2022 and this deduction is no longer required.

The SASPS net economic pension surplus is attributed 40% to the With-Profits Fund and 60% to the Group's shareholders.

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

	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**
Eliminate group issued insurance policies	**–**	**–**	**–**	**–**
Net pension surplus	**10**	**16**	**129**	**155**

	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 pension surplus	**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.

	2021			
As at 31 December	PSPS £m	SASPS £m	M&GGPS £m	Total £m
Fair value of plan assets	7,394	993	754	9,141
Present value of defined benefit obligation	(6,460)	(1,043)	(581)	(8,084)
Effect of restriction on surplus	(896)	–	–	(896)
Net economic pension surplus/(deficit)[i]	38	(50)	173	161
Eliminate group issued insurance policies	–	–	(207)	(207)
Net pension surplus/(deficit) attributable to the Group	38	(50)	(34)	(46)

17 Defined benefit pension schemes continued

As at 31 December	2021 PSPS £m	2021 SASPS £m	2021 M&GGPS £m	2021 Total £m
Attributable to:				
Shareholder-backed business	11	(30)	(34)	(53)
With-Profits Fund	27	(20)	–	7
Net pension surplus/(deficit)	38	(50)	(34)	(46)

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 2022, is shown in the table below.

	PSPS	SASPS	M&GGPS
Last completed actuarial valuation date	5 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 £2.5m per annum)	Approximately £4.5m per annum	Approximately £4m per annum
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

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.

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 Defined benefit pension schemes continued

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.

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.

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 2022, the longevity swap covered £2.0bn (2021: £2.8bn) 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[i]			
As at	Scheme	Mortality tables (with scaling factors applied to reflect experience, and allowances for future improvement)	Mortality improvements model	Male currently aged 60	Male currently aged 40	Female currently aged 60	Female currently aged 40
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**
31 December 2021	PSPS	S3PMA/S3PFA for males/ females	CMI 2019	26.9	29.1	28.4	30.3
	SASPS	S3PMA/S3PFA for males/ females	CMI 2019	27.9	30.0	30.1	31.9
	M&GGPS	S3PMA/S3PFA Light for males/females	CMI 2019	29.1	31.1	30.6	32.3

i The mortality assumptions are adjusted to make allowance for future improvements in longevity. As at 31 December 2022, this allowance was based on the CMI 2020 mortality improvements model with improvement factors of 1.60% for males (Sk = 7.25, A parameter varies by age) and 1.60% for females (Sk = 7.75, A parameter varies by age) (2021: this allowance was based on the CMI 2019 model with improvement factors of 1.75% for males (Sk = 7.50, A =0.45%) and 1.50% for females (Sk = 8.00, A= 0.45%)).

17 Defined benefit pension schemes 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:

	2022			2021		
For the year ended 31 December	PSPS	SASPS	M&GGPS	PSPS	SASPS	M&GGPS
Discount rate[i]	**4.9%**	**4.8%**	**4.8%**	1.8%	1.8%	1.8%
Salary inflation[ii]	**4.0%**	**3.2%**	**3.2%**	3.6%	3.4%	3.3%
Retail prices index (RPI)	**3.3%**	**3.2%**	**3.2%**	3.6%	3.4%	3.3%
Consumer prices index (CPI)	**3.0%**	**3.0%**	**3.0%**	3.1%	3.1%	2.9%
Rate of increase of pensions in payment for inflation[iii]						
Guaranteed (maximum 5%)	**3.0%**	**n/a**	**n/a**	3.1%	n/a	n/a
Guaranteed (maximum 2.5%)	**2.5%**	**n/a**	**n/a**	2.5%	n/a	n/a
Discretionary	**2.5%**	**n/a**	**n/a**	2.5%	n/a	n/a
RPI (maximum 5%)	**n/a**	**3.2%**	**2.9%**	n/a	3.4%	3.3%
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 cashflow 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 2022 and 31 December 2021, the Group has recognised an estimated allowance for GMP equalisation within the IAS 19 valuation for all the UK schemes – comprising £31m for PSPS, £11m for SASPS, and £3m for M&GGPS as at 31 December 2022 (2021: £43m for PSPS, £20m for SASPS and £6m 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 and in deferment.

The sensitivities of the underlying pension scheme liabilities as shown below do not directly equate to the impact on the Group's other comprehensive income due to the effect of the 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

As at 31 December 2022	Sensitivity of the change in assumptions	Increase/(decrease) in the present value of the scheme's defined benefit obligation			
		PSPS £m	SASPS £m	M&GGPS £m	Total £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	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**

As at 31 December 2021	Sensitivity of the change in assumptions	Increase/(decrease) in the present value of the scheme's defined benefit obligation			
		PSPS £m	SASPS £m	M&GGPS £m	Total £m
Base position	n/a	6,460	1,043	581	8,084
Discount rate	Decrease by 0.2%	212	49	28	289
	Increase by 0.2%	(201)	(46)	(27)	(274)
Rate of inflation	Decrease by 0.2% (with consequent reduction in salary increases)	(78)	(33)	(17)	(128)
Mortality rate	Increase in life expectancy by 1 year	210	39	22	271

17.3 Plan assets of the schemes

As at 31 December	2022				2021			
	PSPS £m	Other schemes	Total £m	%	PSPS £m	Other schemes	Total £m	%
Equities								
UK	**47**	**1**	**48**	**1**	48	7	55	1
Overseas	**8**	**70**	**78**	**1**	28	39	67	1
Bonds[i]								
Government	**3,188**	**848**	**4,036**	**71**	4,538	969	5,507	60
Corporate	**1,165**	**4**	**1,169**	**21**	1,909	480	2,389	26
Asset-backed securities	**346**	**66**	**412**	**7**	392	25	417	4
Derivatives[ii]	**(552)**	**(168)**	**(720)**	**(12)**	43	29	72	1
Properties	**263**	**138**	**401**	**7**	215	115	330	4
Other assets	**176**	**65**	**241**	**4**	221	83	304	3
Total value of assets[iii]	**4,641**	**1,024**	**5,665**	**100**	7,394	1,747	9,141	100

i As at 31 December 2022, 88% of the bonds were investment grade (2021: 91%).

ii Included within derivatives is a £10m liability in respect of the longevity swap transaction with Pacific Life Re Limited (2021: £11m), valued at fair value as per IAS19 and based on the principles of IFRS13.

iii As at 31 December 2022, 84% of the total value of the scheme assets were derived from quoted prices in an active market (2021: 92%), 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. Due to the disinvestment in Group insurance policies by M&GGPS during the year the economic basis plan assets is the same as the IAS 19 basis plan assets. The IAS 19 basis plan assets as at 31 December 2021 of £8,934m differs to the economic basis plan assets of £9,141m as shown above due to the investment in Group insurance policies by M&GGPS during 2021.

17 Defined benefit pension schemes continued

17.4 Reconciliation in movement of schemes' surplus/deficit

	Economic basis					
	Fair value of plan assets £m	Present value of benefit obligation £m	Effect of asset ceiling £m	Net economic pension surplus/(deficit) £m	Other adjustments £m	Net pension surplus/(deficit) £m
Net defined benefit pension asset/(liability) at 1 January 2022	**9,141**	**(8,084)**	**(896)**	**161**	**(207)**	**(46)**
Total expense recognised in income statement:						
Current service cost	–	(16)	–	(16)	–	(16)
Past service costs	–	–	–	–	–	–
Net interest income/(expense)	164	(145)	(16)	3	(3)	–
Administration expenses	(9)	–	–	(9)	–	(9)
Total expense recognised in consolidated income statement[i]	**155**	**(161)**	**(16)**	**(22)**	**(3)**	**(25)**
Remeasurements:						
Actuarial gains and losses:						
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[iii]	–	(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 in the Group's insurance policies	–	–	–	–	152	152
Net defined benefit pension asset/(liability) at 31 December 2022	**5,665**	**(4,929)**	**(581)**	**155**	**–**	**155**

i An expense of £13m is included in the total amount recognised in the income statement for the year ended 31 December 2022 relating to the With-Profits Fund (2021: £12m).

ii Included in the share of remeasurement gains and losses for the year ended 31 December 2022 are gains relating to shareholders totalling £31m (2021: gains of £68m) which are recognised in other comprehensive income. The amounts attributable to the With-Profits Fund for the year ended 31 December 2022 amount to losses of £(2)m (2021:gains of £3m) are recognised in other comprehensive income and transferred to unallocated surplus of the With-Profits Fund.

iii The rise in interest rates and widening of credit spreads over the year has reduced both the defined benefit obligation and the value of assets for all schemes. High inflation over 2022 has increased the defined benefit obligation, particularly in respect of the valuation in deferment; however, the existence of inflation caps on pension increases for most tranches dampens the impact of high inflation on the liability.

17 Defined benefit pension schemes continued

	Economic basis					
	Fair value of plan assets £m	Present value of benefit obligation £m	Effect of asset ceiling £m	Net economic pension surplus/ (deficit) £m	Other adjustments £m	Net pension surplus/ (deficit) £m
Net defined benefit pension asset/(liability) at 1 January 2021	9,593	(8,787)	(717)	89	(201)	(112)
Total expense recognised in income statement:						
Current service cost	–	(24)	–	(24)	–	(24)
Past service costs	–	–	–	–	–	–
Net interest income/(expense)	117	(108)	(9)	–	(3)	(3)
Administration expenses	(9)	–	–	(9)	–	(9)
Total expense recognised in income statement[i]	108	(132)	(9)	(33)	(3)	(36)
Remeasurements:						
Actuarial gains and losses:						
Return on the scheme assets less amount included in interest income	(224)	–	–	(224)	13	(211)
Gains on changes in demographic assumptions	–	129	–	129	–	129
Gains on changes in financial assumptions	–	366	–	366	–	366
Experience losses on scheme liabilities	–	(43)	–	(43)	–	(43)
Unrecognisable surplus	–	–	(170)	(170)	–	(170)
Remeasurements gains and (losses)[ii]	(224)	452	(170)	58	13	71
Benefit payments	(383)	383	–	–	–	–
Employers' contributions	47	–	–	47	–	47
Transfer in to investment in Group insurance policies	–	–	–	–	(16)	(16)
Net defined benefit pension asset/(liability) at 31 December 2021	9,141	(8,084)	(896)	161	(207)	(46)

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 £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	Total £m
As at 31 December 2022	**269**	**1,154**	**1,529**	**1,515**	**1,493**	**4,838**	**10,798**
As at 31 December 2021	266	1,123	1,534	1,525	1,466	5,510	11,424

The weighted average duration of each scheme's defined benefit obligations (in years) are as follows:

	PSPS	SASPS	M&GGPS
As at 31 December 2022	**12**	**17**	**18**
As at 31 December 2021	16	23	25

18 Loans

The amounts included in the consolidated statement of financial position in relation to loan assets are analysed as follows:

As at 31 December	2022 £m	2021 £m
Mortgage loans	**1,977**	4,219
Policy loans	**2**	2
Other loans	**1,351**	1,588
Total loans	**3,330**	5,809

As at 31 December 2021, mortgage loans included £1,245m of buy-to-let mortgages held by a securitisation vehicle, Harben 2017-1 plc, that the Group consolidated. As at 31 December 2022, the securitisation vehicle has been deconsolidated following a change in control. Additionally, £285m of other loans were previously included as a result of consolidating Sky Fund I LP and Sky Fund V Onshore, however these funds are also no longer consolidated by the Group following disposal of the investment and a change in control respectively. Refer to Note 2.4 for further details.

As at 31 December 2022, 69% of the £1,351m (2021: 79% of £2,180m) 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 35% (2021: 36%). 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 32.9.

Other loans mainly comprise syndicated and commercial bridge loans.

19 Classification of financial instruments

19.1 Financial assets

		Fair value through profit or loss			
As at 31 December 2022	Note	Designated £m	Held for trading £m	Loans and receivables £m	Total £m
Equity securities and pooled investment funds	32	**70,127**	**–**	**–**	**70,127**
Loans[i]		**1,216**	**–**	**2,114**	**3,330**
Debt securities	32	**62,821**	**–**	**–**	**62,821**
Derivative assets	32	**–**	**2,850**	**–**	**2,850**
Deposits	33	**–**	**–**	**21,401**	**21,401**
Accrued investment income and other debtors	20	**–**	**–**	**2,340**	**2,340**
Cash and cash equivalents	21	**–**	**–**	**4,884**	**4,884**
Total financial assets		**134,164**	**2,850**	**30,739**	**167,753**

i The carrying value of loans held at amortised cost are reported net of allowance for loan losses of £30m as at 31 December 2022 (2021: £18m).

		Fair value through profit or loss			
As at 31 December 2021	Note	Designated £m	Held for trading £m	Loans and receivables £m	Total £m
Equity securities and pooled investment funds	32	74,069	–	–	74,069
Loans		3,275	–	2,534	5,809
Debt securities	32	81,059	–	–	81,059
Derivative assets	32	–	3,373	–	3,373
Deposits	33	–	–	17,633	17,633
Accrued investment income and other debtors	20	–	–	2,647	2,647
Cash and cash equivalents	21	–	–	6,908	6,908
Total financial assets		158,403	3,373	29,722	191,498

Financial assets expected to be recovered after more than one year as at 31 December 2022 are £62,140m (2021: £82,141m).

19 Classification of financial instruments continued

19.2 Financial liabilities

As at 31 December 2022	Note	Fair value through profit or loss Designated £m	Held for trading £m	Amortised cost £m	Total £m
Investment contract liabilities without discretionary participation features	26	**11,937**	**–**	**–**	**11,937**
Third party interest in consolidated funds	32	**10,389**	**–**	**–**	**10,389**
Subordinated liabilities and other borrowings	27	**–**	**–**	**7,537**	**7,537**
Derivative liabilities	32	**–**	**4,185**	**–**	**4,185**
Other financial liabilities[i]		**–**	**–**	**2,172**	**2,172**
Accruals, deferred income and other liabilities[ii]		**246**	**–**	**6,499**	**6,745**
Total financial liabilities		**22,572**	**4,185**	**16,208**	**42,965**

i Other financial liabilities relate to obligations under funding, securities lending, and sale and repurchase agreements.
ii Accruals, deferred income and other liabilities exclude items which do not meet the definition of a financial liability.

As at 31 December 2021	Note	Fair value through profit or loss Designated £m	Held for trading £m	Amortised cost £m	Total £m
Investment contract liabilities without discretionary participation features	26	14,884	–	–	14,884
Third party interest in consolidated funds	32	12,636	–	–	12,636
Subordinated liabilities and other borrowings	27	1,159	–	7,771	8,930
Derivative liabilities	32	–	2,689	–	2,689
Other financial liabilities[i]		–	–	2,882	2,882
Accruals, deferred income and other liabilities[ii]		403	–	5,670	6,073
Total financial liabilities		29,082	2,689	16,323	48,094

Financial liabilities which are expected to be settled after more than one year as at 31 December 2022 were £10,048m (2021: £10,490m).

20 Accrued investment income and other debtors

As at 31 December	2022 £m	2021 £m
Interest receivable	**810**	603
Other accrued investment income	**605**	786
Total accrued investment income	**1,415**	1,389
Other debtors:		
Outstanding sales of investment securities	**149**	103
Investment management fees debtors	**148**	168
Property related debtors	**127**	190
Cancellation of units awaiting settlement	**25**	35
Other	**476**	762
Total accrued investment income and other debtors	**2,340**	2,647
Analysed as:		
Expected to be settled within one year	**2,084**	2,344
Expected to be settled after one year	**256**	303
Total accrued investment income and other debtors	**2,340**	2,647

21 Cash and cash equivalents

As at 31 December	2022 £m	2021 £m
Cash	**4,148**	4,739
Cash equivalents	**736**	2,169
Total cash and cash equivalents	**4,884**	6,908

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.

22 Issued share capital and share premium

Issued shares of 5p fully paid	2022 Number of ordinary share	2022 Share capital £m	2021 Number of ordinary share	2021 Share capital £m
At 1 January	**2,599,906,866**	**130**	2,599,906,866	130
Shares cancelled following buy-back	**(225,194,745)**	**(11)**	–	–
At 31 December	**2,374,712,121**	**119**	2,599,906,866	130

Amounts recorded in share capital represent the nominal value of shares issued with any difference between proceeds received on issue of shares, net of issue costs, and the nominal value of shares issued being credited to the share premium account. The share premium reserve at 31 December 2022 was £370m (2021: £370m).

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 recognition of an £11m capital redemption reserve. As at 31 December 2022, ordinary shares with a nominal value of £47m were bought back but not cancelled with these shares being accounted for as a deduction to Shareholders equity within the Treasury shares reserve.

23 Shares held by employee benefit trusts and other treasury shares

The Group buys and sells its own shares either 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 may undertake transactions in the Group's shares as part of their investment decisions. The cost of own shares as at 31 December 2022 of £117m (2021: £94m) is deducted from equity.

23.1 Shares held by employee benefit trusts

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 via a loan from M&G plc. In addition, there is a separate trust that holds shares in respect of SIP schemes.

The movement in the M&G plc shares held in employee benefit trusts are detailed below:

	2022 Number of shares	2021 Number of shares
At 1 January	**53,991,256**	68,182,585
Shares acquired during the year	**531,829**	171,417
Shares awarded during the year	**(13,720,063)**	(14,362,746)
At 31 December	**40,803,022**	53,991,256

The Trust holds 38,480,430 (2021: 51,180,656) shares whilst a further 2,322,592 (2021: 2,810,600) shares are held by the trustee of the SIP scheme at 31 December 2022.

The cost of shares held in the employee benefit trusts of £70m as at 31 December 2022 (2021: £93m) is deducted from equity.

23.2 Other treasury shares

The Group has consolidated a number of authorised investment funds where it is deemed to control these funds under IFRS, and some of these funds may hold shares in M&G plc. As at 31 December 2021, the total number of shares held by these funds was 562,297 with a carrying value of £1m. No shares of this nature were held as at 31 December 2022.

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. These shares are a deduction to Shareholders equity within the Treasury shares reserve.

All share transactions were made on an exchange.

24 Retained earnings

	Note	2022 £m	2021 £m
At 1 January		**16,550**	16,853
Recognised in comprehensive income:			
(Loss)/profit for the year		**(1,632)**	83
Other comprehensive income for the year		**24**	50
Total items recognised in comprehensive income		**(1,608)**	133
Recognised directly in equity:			
Transactions with equity holders:			
Dividends	11	**(465)**	(466)
Shares distributed by employee trusts		**(22)**	(24)
Vested employee share-based payments	25	**23**	33
Tax effect of items recognised directly in equity		**1**	21
Shares purchased in buy-back	22	**(456)**	–
Total items recognised directly in equity		**(919)**	(436)
Net decrease in equity		**(2,527)**	(303)
At 31 December		**14,023**	16,550

25 Other reserves

	Note	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	22	**–**	**–**	**–**	**11**	**11**
Net increase in equity		**16**	**–**	**20**	**11**	**47**
As at 31 December 2022		**101**	**(11,732)**	**7**	**11**	**(11,613)**

	Note	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 2021		74	(11,732)	–	–	(11,658)
Exchange movements arising on foreign operations		–	–	(13)	–	(13)
Total items recognised in comprehensive income		–	–	(13)	–	(13)
Vested employee share-based payments		(33)	–	–	–	(33)
Expense recognised in respect of share-based payments		40	–	–	–	40
Tax effect of items recognised directly in equity		4	–	–	–	4
Net increase/(decrease) in equity		11	–	(13)	–	(2)
As at 31 December 2021		85	(11,732)	(13)	–	(11,660)

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.

26 Policyholder liabilities, unallocated surplus and reinsurance

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

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

26.1.1 With-profits business

The With-Profits Fund mainly contains with-profits contracts but also contains some non-profit business (annuities, unit-linked, and term assurances). The liabilities of the With-Profits Fund are accounted for on a realistic basis in accordance with the requirements of FRS 27 Life Assurance. The basis is consistent with the rules for the determination of reserves on the realistic basis under the Solvency I capital regime. Though no longer in force for regulatory purposes, these rules continue to be applied to determine with-profits contract liabilities in accordance with IFRS 4 Insurance Contracts. In aggregate, the regime has the effect of placing a market-consistent value on the liabilities of with-profits contracts, which reflects the amounts expected to be paid based on the current value of investments held by the With-Profits Fund and current circumstances. In line with FRS 27 requirements, the non-profit annuities business within the With-Profits Fund is valued on the statutory basis, i.e. including margins for adverse deviations (as set out in 'Valuation of annuity contracts'). The with-profits liabilities are valued on a realistic basis and therefore allow for the future enhancements to the policyholders. Following this approach unadjusted would lead to an inconsistency in the net assets, as such, the present value of future profits from the relevant non-profit annuities is applied as an adjustment to the with-profit liabilities. Annually when the enhancements to asset shares are committed to, the value of the enhancements is transferred from the Unallocated surplus of the With-Profits Fund to with-profit liabilities.

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

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

(ii) Future policy-related liabilities (FPRL)

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

The FPRL is comprised of other components of the liability including a market-consistent valuation of costs of guarantees, options and smoothing, less any related charges, and this amount is determined using stochastic modelling techniques.

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

- Assumptions relating to persistency and the take-up of options offered under 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 of the appropriate SMEs across the business;
- Management actions under which the fund is managed in different scenarios;
- Maintenance and, for some classes of business, termination expense assumptions are expressed as per policy amounts. They are set based on 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;
- 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. However, mortality experience over 2020 and 2021 was significantly higher than previous years' as a result of the COVID-19 pandemic. Therefore, no weight has been given to 2020 or 2021 experience in calibrating mortality assumptions.
- Future investment return assumptions are set at a risk-free rate equal to the spot yield on UK swaps. The volatility of investment returns are set with reference to implied volatility data on traded market instruments, where available, or on a best estimate basis where not.

Unallocated surplus

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

26 Policyholder liabilities, unallocated surplus and reinsurance continued

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;
- 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.

Determination of bonuses

Profit recognition for traditional with-profits business written in the WPSF is in line with the declaration of bonuses. Determining discretionary bonuses for traditional types of with-profits business requires the PAC Board to apply significant judgement, including in particular the following:

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

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

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

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

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

26 Policyholder liabilities, unallocated surplus and reinsurance continued

For the year ended 31 December	2022 £m	2021 £m
Net income of the WPSF:		
Investment return	**(7,239)**	11,875
Claims incurred	**(10,225)**	(10,728)
Movement in policyholder liabilities	**10,758**	(1,321)
Add back policyholder bonus for the year (as shown below)	**3,494**	2,906
Claims incurred and movement in policyholder liabilities (including change for provision for asset shares and excluding policyholder bonuses)	**4,027**	(9,143)
Earned premiums, net of reinsurance	**6,270**	4,503
Other income	**2**	26
Acquisition costs and other expenditure	**(1,164)**	(2,436)
Share of profits from investment joint ventures	**38**	76
Tax credit/(charge)	**232**	(645)
Net income of the fund before movement in unallocated surplus of the With-Profits Fund	**2,166**	4,256
Movement in unallocated surplus of the With-Profits Fund	**1,689**	(1,052)
Surplus for distribution for the year	**3,855**	3,204
Surplus for distribution for the year allocated as follows:		
Policyholders' bonus (as shown above)	**3,494**	2,906
Shareholders' transfers[i]	**361**	298
Surplus for distribution for the year	**3,855**	3,204

i Shareholder transfers for most business in the WPSF are one ninth of the cost of bonus declared to policyholders. In 2021, the SAIF with-profits sub-fund was merged with the WPSF. Shareholders have no entitlement to profits from the bonus relating to ex-SAIF policyholders of £220m for the year ended 31 December 2022 (2021: £226m), the value of which is included in the total Policyholders' bonus shown in the table above. Refer to Note 2.3 for further details.

26.1.2 Unit-linked business

For unit-linked contracts, the attaching liability reflects the unit value obligation (using actuarial funding where relevant) and, in the case of contracts with significant insurance risk which are therefore classified as insurance contracts, allowance for expense, persistency, and mortality risk. The latter component, calculated using a discounted cashflow approach (non-unit reserves), is determined by applying mortality assumptions on a basis that is appropriate for the policyholder profile and including a margin for prudence in the mortality, persistency, and expense assumptions. To calculate the non-unit reserves for unit-linked insurance contracts, assumptions are also set for the unit growth rate and the valuation interest rate. The valuation interest rate is derived from the yields of assets representative of the returns that will be earned on the assets backing these liabilities.

For those contracts where the level of insurance risk is insignificant, the assets and liabilities arising under the contracts are distinguished between those that relate to the financial instrument liability, and the deferred acquisition costs and deferred income that relate to the component of the contract that relates to investment management. The fair value of the liability is equal to the unit value obligation.

Deferred acquisition costs and deferred income are recognised in line with the level of service provision.

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

26 Policyholder liabilities, unallocated surplus and reinsurance continued

26.1.3 Annuities and other long-term business

The majority of the policyholder liabilities in the "annuities and other long-term business" component relate to annuity contracts. The annuity liabilities are calculated as the expected value of future annuity payments and expenses, discounted by a valuation interest rate, having prudent regard to the assumptions used. The valuation methodology for the reinsurance is based on a deterministic cashflow model, in line with the underlying portfolio.

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

Mortality

Mortality assumptions for annuity business are set in light of recent population and internal experience, with an allowance for expected future mortality improvements. Given the long-term nature of annuity business, annuitant mortality remains a significant assumption in determining policyholder liabilities.

The assumptions used reference recent England & Wales population mortality data consistent with the CMI mortality improvements 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 amongst 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.

For current mortality, while no weight has been given to the most recent years of experience, the Group's longevity assumptions have been updated to reflect enhancements made to aspects of the underlying data and the corresponding modelling approach. This has resulted in a small weakening.

The mortality improvements observed in recent population data have been considered as part of the judgement exercised in setting the mortality basis for 2022. New mortality projection models are released annually by the Continuous Mortality Investigation (CMI). The CMI tables used are adjusted as appropriate each year to reflect anticipated mortality improvements, including an appropriate margin on an IFRS basis relative to the best estimate assumption used for Solvency II.

An external panel process with a range of experts from different disciplines (such as Public Health & Social Policy, General Practice and Oncology) was undertaken in 2022 which formed part of a review of the drivers of future mortality improvements. Enhancements were also made to the approach to determining how the Group's own portfolio experience could differ from the population as whole. Combining these resulted in more pessimism (i.e. lower levels of future improvements) than the previous year and resulted in a release of reserves. The 2022 basis is expressed in terms of CMI 2020 in comparison to the 2021 basis, which was expressed relative to CMI 2019. The mortality improvement assumptions used are summarised in the table below, with other assumptions reflecting the core CMI projection.

Period ended	Model version[i, iv]	Long-term improvement rate[ii]	Smoothing parameter (Sk)[iii]
31 December 2022	**CMI 2020**	**For males: 2.10% pa** **For females: 2.10% pa**	**For males: 7.25** **For females: 7.75**
31 December 2021	CMI 2019	For males: 2.25% pa For females: 2.00% pa	For males: 7.50 For females: 8.00

i An 'A' parameter in the model to reflect socio-economic differences between the portfolio and population experience is also used. This adjusts initial mortality improvement rates and was 0.45% at 31 December 2021. Under the revised methodology, this parameter varies by age and gender and is reduced at all ages relative to 31 December 2021.

ii As at 31 December 2022 and 31 December 2021, the long-term improvement rates shown reflected a 0.5% increase to all future improvement rates relative to the best estimate used under Solvency II as a margin for prudence.

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

iv The tapering of improvements to zero is set to occur between ages 90–110 at 31 December 2022, which is a change from 85–110 at 31 December 2021.

The mortality assumptions for in-force vested annuities also cover annuities in deferment.

The sensitivity of IFRS profit before tax and of with-profits liabilities to changes in assumed mortality rates is shown in Note 33.2.

26 Policyholder liabilities, unallocated surplus and reinsurance continued

Valuation interest rates

Valuation interest rates used to discount the liabilities are based on the yields as at the valuation date on the assets backing the policyholder liabilities. For fixed interest securities, the internal rate of return of the assets backing the liabilities is used. Investment properties are valued using the redemption yield. An adjustment is made to the yield on non risk-free fixed interest securities and property to reflect credit risk. The credit risk allowance comprises an amount for long-term best estimate defaults and downgrades, a provision for credit risk premium, and where appropriate an additional short-term overlay to reflect prospective outlook in respect of experience over the coming period, including any uncertainty in outlook. Following adverse downgrade experience over the latter half of 2022, and deteriorating future outlook for the UK economy, the short-term allowance has been increased for reporting as at 31 December 2022. The table below shows the credit allowance relative to the overall spread over swaps.

Period ended 31 December 2022	Shareholder-backed annuities	Annuities in With-Profits Fund
Credit default allowance	**47 bps**	**46 bps**
Overall valuation interest rate	**5.48%**	**5.32%**
Credit allowance as proportion of spreadover swaps	**20.3%**	**21.5%**
Net of reinsurance credit reserve (£m)	**434**	**198**

Period ended 31 December 2021	Shareholder-backed annuities	Annuities in With-Profits Fund
Credit default allowance	44 bps	40 bps
Overall valuation interest rate	2.23%	2.03%
Credit allowance as proportion of spread over swaps	25.0%	27.7%
Net of reinsurance credit reserve (£m)	727	312

The decrease in net of reinsurance reserve is primarily due to the increase in yields since 31 December 2021. The allowance for credit risk within the valuation interest rate is of particular importance when determining policyholder liabilities, and the sensitivity of IFRS profit after tax to changes in this assumption is shown in Note 33.2.

Expenses

Maintenance expense assumptions are expressed as per policy amounts. 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. A margin for prudence is added to this amount. Expense inflation assumptions are set consistent with the economic basis and based on the inflation swap spot curve. These assumptions therefore take recent increases in inflation into account, and allow for the market-driven long-term view of future inflation.
The sensitivity of IFRS profit after tax to changes in maintenance expense levels is shown in Note 33.2.

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

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

26 Policyholder liabilities, unallocated surplus and reinsurance continued

	With-profits sub-funds[i] £m	Shareholder-backed funds and subsidiaries: Unit-linked liabilities £m	Shareholder-backed funds and subsidiaries: Annuity and other long-term business £m	Total £m	Reinsurance[ii, vi] £m	Net total £m
As at 1 January 2021	136,387	20,455	30,599	187,441	(11,761)	175,680
Comprising:						
Insurance contract liabilities	41,172	4,987	30,491	76,650		
Investment contract liabilities with DPF	79,592	–	31	79,623		
Investment contract liabilities without DPF	2	15,468	77	15,547		
Unallocated surplus of the With-Profits Fund	15,621	–	–	15,621		
Net Flows:						
Premiums	4,505	1,471	157	6,133		
Surrenders	(6,480)	(3,231)	(91)	(9,802)		
Maturities/deaths	(4,334)	(628)	(1,979)	(6,941)		
Net flows	(6,309)	(2,388)	(1,913)	(10,610)		
Corporate transactions[iii]	–	598	(9,558)	(8,960)		
Shareholders' transfers post-tax	(298)	–	–	(298)		
Switches	(31)	31	–	–		
Assumption changes[iv]	–	–	(347)	(347)		
Investment-related items and other movements	8,960	1,173	350	10,483		
Foreign exchange differences	(80)	(56)	–	(136)		
As at 31 December 2021/As at 1 January 2022	**138,629**	**19,813**	**19,131**	**177,573**	**(1,669)**	**175,904**
Comprising:						
Insurance contract liabilities	**39,203**	**4,978**	**19,042**	**63,223**		
Investment contract liabilities with DPF	**82,700**	**–**	**43**	**82,743**		
Investment contract liabilities without DPF	**3**	**14,835**	**46**	**14,884**		
Unallocated surplus of the With-Profits Fund	**16,723**	**–**	**–**	**16,723**		
Net Flows:						
Premiums	**6,270**	**877**	**148**	**7,295**		
Surrenders	**(6,256)**	**(2,273)**	**(91)**	**(8,620)**		
Maturities/deaths	**(4,237)**	**(517)**	**(1,221)**	**(5,975)**		
Net flows	**(4,223)**	**(1,913)**	**(1,164)**	**(7,300)**		
Corporate transactions[iii]	**–**	**–**	**–**	**–**		
Shareholders' transfers post-tax	**(361)**	**–**	**–**	**(361)**		
Switches	**(44)**	**44**	**–**	**–**		
Assumption changes[iv]	–	–	**(275)**	**(275)**		
Investment-related items and other movements[v]	**(8,116)**	**(1,856)**	**(4,312)**	**(14,284)**		
Foreign exchange differences	**86**	**26**	**1**	**113**		
As at 31 December 2022	**125,971**	**16,114**	**13,381**	**155,466**	**(944)**	**154,522**
Comprising:						
Insurance contract liabilities	**32,299**	**4,214**	**13,292**	**49,805**		
Investment contract liabilities with DPF	**78,539**	**–**	**55**	**78,594**		
Investment contract liabilities without DPF	**3**	**11,900**	**34**	**11,937**		
Unallocated surplus of the With-Profits Fund	**15,130**	**–**	**–**	**15,130**		

i Includes the WPSF, the DCPSF and the SAIF, including the non-profit business written within these funds. On 1 April 2021 the closed SAIF fund merged with PAC's main WPSF and the assets and liabilities of SAIF combined with those of the WPSF.

ii Reinsurance at 31 December 2022 includes Reinsurance assets of £1,186m net of longevity swap liabilities of £242m (31 December 2021: £174m) included in Accruals, deferred income and other liabilities on the consolidated statement of financial position and in Note 30, but previously presented in Reinsurance assets. For the comparative periods all reinsurance is presented in Reinsurance assets.

iii Corporate transactions in 2021 relates to the impact of the Part VII transfer of annuity business to Rothesay Life PLC which decreased annuity and other long-term business by £9,558m and reduced the reinsurance asset by £9,558m, and the acquisition of MGSA which increased unit-linked liabilities by £598m.

iv Refer to breakdown of assumption changes below.

v Reduction over 2022 primarily reflects the impact of adverse market movements over the year, in particular the significant rise in interest rates.

vi The reduction over 2022 is driven by the same factors as the underlying liabilities, namely the rise in interest rates and weakening of the annuitant mortality basis.

26 Policyholder liabilities, unallocated surplus and reinsurance continued

The tables below set out the impact of assumption changes on gross policyholder liabilities over the current and previous reporting period. The impact on the With-Profits Fund liabilities is offset by a corresponding reduction in the unallocated surplus of the With-Profits Fund and is therefore reported as £nil in the table above.

Assumption changes impact on shareholder-backed business	2022 £m	2021 £m
Longevity[i]	**(292)**	(320)
Expenses (including investment management expenses)	**17**	(8)
Other[ii]	**–**	(19)
Total	**(275)**	(347)

Assumption changes impact on With-Profits Fund (offset by opposite movement in unallocated surplus)	2022 £m	2021 £m
Longevity[i]	**(278)**	(92)
Persistency	**99**	116
Expenses (including investment management expenses)	**210**	(66)
Other[ii]	**17**	(8)
Total	**48**	(50)

i The net of reinsurance impacts of longevity assumption changes, as set out in the Business and Financial review, are £(193)m in 2022 and £(125)m in 2021.

ii 'Other' category includes non-annuitant mortality, morbidity, and judgemental assumption changes in respect of the long-term view of credit risk. Any impact relating to changes in those components of the credit default allowance that are not subjective but are purely market-driven are allocated to 'investment-related items and other movements'.

The impact of longevity assumption updates over the reporting period reflects the weakening of the basis for shareholder and policyholder backed annuity business, including in respect of lower future improvements in mortality, as set out in 26.1.3. Persistency assumptions were also updated for the year ended 31 December 2022 for a number of with-profits product lines in order to reflect emerging experience. The impact in respect of expense assumption changes predominately reflects the impact of higher salary and cost inflation. The 'other' category includes the impact of the increase in the long-term subjective (non-market driven) components of the credit default allowance.

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

26 Policyholder liabilities, unallocated surplus and reinsurance continued

	Insurance contracts £m	Investment contracts[i] £m	Unallocated surplus of the With-Profits Fund £m	Reinsurers' Share[ii] £m
As at 1 January 2021	76,650	95,170	15,621	(11,761)
Additions arising on acquisitions[iii]	–	598	–	–
Income and expense included in the income statement[iv]	(13,356)	3,556	1,052	10,088
Other movements including amounts included in other comprehensive income[v]	5	(1,640)	2	6
Foreign exchange translation differences	(76)	(57)	48	(2)
As at 31 December 2021/As at 1 January 2022	**63,223**	**97,627**	**16,723**	**(1,669)**
Income and expense included in the income statement	**(13,537)**	**(5,633)**	**(1,689)**	**735**
Other movements including amounts included in other comprehensive income[v]	**116**	**(1,493)**	**(2)**	**(15)**
Foreign exchange translation differences	**3**	**30**	**98**	**5**
As at 31 December 2022	**49,805**	**90,531**	**15,130**	**(944)**

i This comprises investment contracts with discretionary participation features of £78,594m as at 31 December 2022 (2021: £82,743m) and investment contracts without discretionary participation features of £11,937m as at 31 December 2022 (2021: £14,884m).

ii Includes reinsurers' share of claims outstanding of £137m as at 31 December 2022 (2021: £143m). Reinsurance at 31 December 2022 includes Reinsurance Assets of £1,186m net of longevity swap liabilities of £242m included in Accruals, deferred income and other liabilities on the consolidated statement of financial position and in Note 30. For the comparative periods all reinsurance is presented in Reinsurance Assets.

iii Additions arising on acquisitions for the year to 31 December 2021 relate to the acquisition of MGSA which increased unit-linked liabilities by £598m.

iv Income and expense included in the income statement in 2021 includes the impact of the Part VII transfer of annuity business to Rothesay Life PLC.

v Other movements including amounts included in other comprehensive income include premiums received and claims paid on investment contracts without discretionary participating features, which are taken directly to the consolidated statement of financial position in accordance with IAS 39; changes in the unallocated surplus of the With-Profits Fund resulting from actuarial gains and losses on the Group's defined benefit pension schemes, which are recognised directly in other comprehensive income and balance sheet reallocations. In 2022, this also reflects the divestment of insurance policies in PPL previously held by the M&G Group Pension scheme. Refer to Note 17 for further details.

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

	2022		
For the year ended 31 December	Policyholder liabilities[i] £m	Unallocated surplus of the With-Profits Fund £m	Reinsurance asset £m
Movement in policyholder liabilities and unallocated surplus of the With-Profits Fund included in consolidated income statement	**19,170**	**1,689**	**–**
Movement in reinsurance asset included in consolidated income statement	**–**	**–**	**(735)**
Benefits and claims paid	**(12,183)**	**–**	**–**
Benefits and claims attributable to external reinsurers	**–**	**–**	**494**
Benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance, as shown in consolidated income statement	**6,987**	**1,689**	**(241)**

i Policyholder liabilities consist of insurance contract liabilities and investment contract liabilities.

	2021		
For the year ended 31 December	Policyholder liabilities[i] £m	Unallocated surplus of the With-Profits Fund £m	Reinsurance asset £m
Movement in policyholder liabilities and unallocated surplus of the With-Profits Fund included in consolidated income statement	9,807	(1,052)	–
Movement in reinsurance asset included in consolidated income statement	–	–	(10,088)
Benefits and claims paid	(13,358)	–	–
Benefits and claims attributable to external reinsurers	–	–	1,608
Benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance as shown in consolidated income statement	(3,551)	(1,052)	(8,480)

26 Policyholder liabilities, unallocated surplus and reinsurance continued

26.3 Duration of liabilities

The tables below show the expected timing of the cash flows which make up the policyholder liabilities, including liabilities accounted for under IFRS 4 and those accounted for as financial liabilities under IAS 39. The expected timing of the cash flows will depend on the contract term and also expectations of assumptions such as future mortality and persistency, depending on the type of contract. For with-profits and unit-linked contracts, actual amounts payable will vary with future investment performance of the funds. The following tables show the carrying value of the policyholder liabilities and the expected timing of the cash flows, on a discounted basis:

	2022									
	With-profits business			Annuity business (insurance contracts)			Other business and unit-linked			Total
As at 31 December	Insurance contracts	Investment contracts	Total	Non-profit annuities within With-Profits Fund	Shareholder-backed annuities	Total	Insurance contracts	Investment contracts	Total	
Carrying value (£m)	**25,321**	**78,528**	**103,849**	**6,684**	**12,328**	**19,012**	**5,473**	**12,002**	**17,475**	**140,336**
Expected cash flow timing:										
0 to 5 years	**36%**	**37%**	**37%**	**49%**	**39%**	**41%**	**44%**	**36%**	**38%**	**38%**
5 to 10 years	**25%**	**25%**	**25%**	**27%**	**25%**	**25%**	**27%**	**26%**	**26%**	**25%**
10 to 15 years	**17%**	**16%**	**16%**	**15%**	**16%**	**16%**	**15%**	**18%**	**17%**	**16%**
15 to 20 years	**10%**	**10%**	**10%**	**6%**	**10%**	**9%**	**7%**	**11%**	**10%**	**10%**
20 to 25 years	**6%**	**6%**	**6%**	**2%**	**5%**	**5%**	**4%**	**5%**	**5%**	**6%**
over 25 years	**6%**	**6%**	**6%**	**1%**	**5%**	**4%**	**3%**	**4%**	**4%**	**5%**

	2021									
	With-profits business			Annuity business (insurance contracts)			Other business and unit-linked			Total
As at 31 December	Insurance contracts	Investment contracts	Total	Non-profit annuities within With-Profits Fund	Shareholder-backed annuities	Total	Insurance contracts	Investment contracts	Total	
Carrying value (£m)	29,507	82,702	112,209	9,311	17,646	26,957	6,760	14,924	21,684	160,850
Expected cash flow timing:										
0 to 5 years	34%	36%	35%	36%	29%	32%	43%	33%	36%	35%
5 to 10 years	24%	25%	25%	26%	24%	25%	25%	25%	25%	25%
10 to 15 years	17%	16%	17%	17%	19%	18%	16%	18%	17%	17%
15 to 20 years	11%	10%	10%	10%	14%	12%	8%	11%	10%	11%
20 to 25 years	7%	6%	6%	5%	8%	7%	4%	7%	6%	6%
over 25 years	7%	7%	7%	6%	6%	6%	4%	6%	6%	6%

The cash flow projections of expected liability payments used in the expected cash flow timing table above are from the value of in-force business and exclude the value of future new business, including future vesting of pension contracts. The expected cashflow timing for reinsurance (excluding longevity swaps) should be materially in line with the underlying liabilities.

Liability payments do not reflect the pattern of bonuses and shareholder transfers in respect of the with-profits business.

The amounts shown in the table exclude the unallocated surplus of the With-Profits Fund, as its allocation has not yet been defined.

27 Subordinated liabilities and other borrowings

As at 31 December	2022 £m	2021 £m
Subordinated liabilities	**3,729**	3,706
Operational borrowings	**50**	107
Borrowings attributable to With-Profits Fund	**3,758**	5,117
Total subordinated liabilities and other borrowings	**7,537**	8,930

27.1 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.

	2022		2021	
As at 31 December	Principal amount	Carrying value £m	Principal amount	Carrying value £m
5.625% sterling fixed rate due 20 October 2051	**£750m**	**839**	£750m	848
6.25% sterling fixed rate due 20 October 2068	**£500m**	**604**	£500m	606
6.50% US dollar fixed rate due 20 October 2048	**$500m**	**466**	$500m	423
6.34% sterling fixed rate due 19 December 2063	**£700m**	**845**	£700m	849
5.56% sterling fixed rate due 20 July 2055	**£600m**	**672**	£600m	676
3.875% sterling fixed rate due 20 July 2049	**£300m**	**303**	£300m	304
Total subordinated liabilities		**3,729**		3,706

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

A description of the key features of each of the Group's subordinated notes as at 31 December 2022 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)	10 July 2019
Maturity date	20 October 2051	20 October 2068	20 October 2048	19 December 2063	20 July 2055	20 July 2049
Callable at par at the option of the Company from	20 October 2031 (and each semi-annual interest payment date thereafter)	20 October 2048 (and each semi-annual interest payment date thereafter)	20 October 2028 (and each semi-annual interest payment date thereafter)	19 December 2043 (and each semi-annual interest payment date thereafter)	20 July 2035 (and each semi-annual interest payment date thereafter)	20 July 2024, 20 July 2029 (and each semi-annual interest payment date thereafter)
Solvency II own funds treatment	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2

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

As at 31 December 2022, the principal amount of all subordinated liabilities is expected to be settled after more than 12 months and accrued interest of £43m (2021: £42m) is expected to be settled within 12 months.

27 Subordinated liabilities and other borrowings continued

27.1.1 Movement in subordinated liabilities

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

	2022 £m	2021 £m
At 1 January	**3,706**	3,729
Amortisation	**(28)**	(27)
Foreign exchange movements	**51**	4
At 31 December	**3,729**	3,706

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.

27.2 Other borrowings

27.2.1 Operational borrowings

As at 31 December 2021, operational borrowings of £107m included amounts for which repayment to the lender is contingent upon future surplus emerging from certain contracts specified under the arrangement. During 2022 these contingent loans have been repaid and no such amounts remain outstanding as at 31 December 2022.

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 2022, these remain undrawn.

27.2.2 Borrowings attributable to the With-Profits Fund

As at 31 December	2022 £m	2021 £m
Non-recourse borrowings of consolidated investment funds[i]	**3,608**	5,083
Bank loans and overdrafts	**150**	34
Total	**3,758**	5,117

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. As at 31 December 2021, the non-recourse borrowings of consolidated investment funds includes £1,159m of debt instruments issued by a consolidated securitisation vehicle, Harben 2017-1 plc, which were backed by a portfolio of mortgage loans . These borrowings were carried at fair value through profit or loss, consistent with the underlying mortgage portfolio. As at 31 December 2022, the securitisation vehicle has been deconsolidated following a change in control. Additionally, £842m of borrowings were previously included as a result of consolidating Sky Fund I LP and Sky Fund V Onshore, however these funds are also no longer consolidated by the Group following disposal of the investment and a change in control respectively. Refer to Note 2.4 for further details.

27.3 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 (£m)							
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	No Stated Maturity	Total
As at 31 December 2022	**49**	**1**	**–**	**–**	**–**	**–**	**–**	**50**
At as 31 December 2021[i]	5	5	–	–	–	–	97	107

	Borrowings attributable to the With-Profits Fund (£m)							
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	No Stated Maturity	Total
As at 31 December 2022	**401**	**1,117**	**285**	**163**	**268**	**1,524**	**–**	**3,758**
At as 31 December 2021	593	616	559	373	333	2,643	–	5,117

i For the year ended 31 December 2021, other borrowings which relate to obligations under finance leases have been reallocated to lease liabilities on the Consolidated statement of financial position.

28 Lease liabilities

The Group leases various land and buildings to utilise as office space. Information about leases for which the Group is a lessee is presented below.

As at 31 December	2022 £m	2021 £m
At 1 January	**413**	354
Transfers[i]	**(7)**	92
Additions	**53**	13
Disposals	**(9)**	(23)
Interest expense	**14**	12
Lease repayments	**(44)**	(35)
At 31 December	**420**	413

i For the year ended 31 December 2022, transfers out of £7m relates to lease liabilities held for sale in relation to the Group's consolidated infrastructure capital private equity vehicles. For the year ended 31 December 2021 transfers in relates to £88m of leases previously reported within Subordinated liabilities and other borrowings on the Consolidated statement of financial position, and £4m following the acquisition of MGSA.

As at 31 December	2022 £m	2021 £m
Expected to be settled within one year	**35**	25
Expected to be settled after one year	**385**	388
Total lease liabilities	**420**	413

As at 31 December 2022, £31m (2021: £34m) of the lease liabilities are attributable to the With-Profits Fund.

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	2022 £m	2021 £m
Future minimum lease payments falling due in:		
Less than 1 year	**41**	34
1 to 5 years	**136**	122
Over 5 years	**346**	331

For the year ended 31 December 2021, some of the leases of office buildings contained lease break options exercisable by the Group. The Group assessed at the point of lease commencement whether it was reasonably certain to exercise the option. This assertion was revisited if there was a material change in circumstances. For the year ended 31 December 2022 there were no lease break options exercisable by the Group.

The undiscounted value of lease payments beyond the break period which were not recognised in lease liabilities as at 31 December 2021 was £1m.

29 Provisions

As at 31 December	2022 £m	2021 £m
Regulatory	**1**	1
Staff benefits	**48**	83
Restructuring	**11**	37
Other	**30**	17
Total provisions	**90**	138

For the year ended 31 December	2022 £m	2021 £m
At 1 January	**138**	235
Charged to consolidated income statement:		
Additions during the year	**20**	24
Unused amounts released	**(8)**	(38)
Used during the year	**(58)**	(83)
Foreign exchange differences	**(2)**	–
At 31 December	**90**	138

Regulatory provisions in relation to annuity sales practices

PAC had agreed with the Financial Conduct Authority (FCA) to review annuities sold without advice after 1 July 2008 to its contract-based defined contribution pension clients, and this review is now complete. In addition, PAC had been conducting a review of other similar but separate groups of annuities sold after 1 July 2008 which were outside the scope of the original review. The review was examining whether clients were given sufficient information about their potential eligibility to purchase an enhanced annuity, either from PAC or another pension provider. At 31 December 2022 only a minimal number of potential cases remain in scope and all provisions set up in relation to the redress exercise were released by 31 December 2021.

Staff benefits

Staff benefits primarily relate to performance related bonuses estimated for the current year to be paid out in future years.

Restructuring

Included in restructuring provisions is £10m as at 31 December 2022 (2021: £36m) related to change in control costs arising from the Demerger in 2019. The remaining £1m (2021: £1m) restructuring provisions are in relation to redundancy costs.

Other

Included within other provisions is the Group's obligation under the call option arrangement to purchase the remaining shareholding of responsAbility as outlined in Note 2.2.2.

30 Accruals, deferred income and other liabilities

As at 31 December	2022 £m	Restated[i] 2021 £m
Outstanding purchases of investment securities	**4,607**	3,836
Accruals and deferred income	**1,338**	1,469
Deferred consideration	**246**	403
Deposits received from reinsurers	**146**	299
Creditors arising from insurance operations	**189**	156
Interest payable	**80**	60
Creation of units awaiting settlement	**32**	52
Property related creditors	**17**	15
Reinsurance liabilities[ii]	**242**	–
Other	**509**	376
Total accruals, deferred income and other liabilities	**7,406**	6,666
Analysed as:		
Expected to be settled within one year	**6,920**	6,116
Expected to be settled after one year	**486**	550
Total accruals, deferred income and other liabilities	**7,406**	6,666

i Following a review of the Group's presentation of tax positions within consolidated investment funds, comparative amounts have been restated from those previously reported. The restatement has had no impact on profit for the year or net assets. See Note 1.1 for further information.

ii Reinsurance liabilities at 31 December 2022 relate to longevity swap liabilities of £242m (31 December 2021: £174m) previously held in Reinsurance assets on the consolidated statement of financial position and in Note 26. For the comparative periods all reinsurance is presented in Reinsurance assets.

31 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 2022 and 31 December 2021, 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.

31.1 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	2022 £m	2021 £m
Statement of financial position line item:		
Equity securities and pooled investment funds	**13,497**	12,282
Debt securities	**2,134**	2,338
Total	**15,631**	14,620

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 33.

Included in equity securities and pooled investment funds as at 31 December 2022 were £6,858m (2021: £4,610m) of investments in structured entities managed by the Group. Investment management fees for the year ended 31 December 2022 of £416m (2021: £444m) 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 ended 31 December 2022 from managing these entities were £300m (2021: £260m).

32 Fair value methodology

32.1 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 valuation is based on a traded price in an active market.

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

Level 2 principally includes corporate bonds and other 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.

32 Fair value methodology continued

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.

32.2 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.

32.3 Level 3 assets and liabilities

32.3.1 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 e.g. market illiquidity. The valuation techniques used include comparison to recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option-adjusted spread models and, if applicable, enterprise valuation. These techniques may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these instruments. When determining the inputs into the valuation techniques used priority is given to publicly available prices from independent sources when available, but overall the source of pricing is chosen with the objective of arriving at a fair value measurement that reflects the price at which an orderly transaction would take place between market participants on the measurement date.

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

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.

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.

32 Fair value methodology continued

The investment properties of the Group are externally valued by professionally qualified external valuers using the RICS valuation standards. 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.

The way that climate-related factors may influence key inputs for level 3 instruments can be nuanced and complex to identify. The inclusion of other climate-related factors into fair value is expected to evolve over the coming years as valuation toolsets progress to allow more accurate measurement of climate impact.

32.3.2 Analysis of internally valued level 3 financial instruments

Level 3 financial assets, net of financial liabilities, which were internally valued as at 31 December 2022 were £7,115m (2021: £11,933m), representing 5.6% of the total fair-valued financial assets net of financial liabilities (2021: 8.0%).

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

- Debt securities of £7,083m as at 31 December 2022 (2021: £10,917m), of which £5,885m (2021: £9,167m) were valued using discounted cash flow models with an internally developed discount rate. The remaining debt securities were valued using other valuation methodologies such as enterprise valuation and estimated recovery (such as liquidators' reports).
- Infrastructure fund investments in both debt and equity securities of £497m as at 31 December 2022 (2021: £380m) were valued internally using a discounted cash flow model. The most significant inputs to the valuation are the forecast cash flows of the underlying business, discount rate, and terminal value assumption, all of which involve significant judgement. The valuation is performed in accordance with International Private Equity and Venture Capital Association valuation guidelines. These investments are held by the Group's consolidated private equity infrastructure funds.
- Equity release mortgage loans of £934m as at 31 December 2022 (2021: £1,723m) and a corresponding liability of £246m (2021: £403m), which were valued internally using discounted cash flow models. The inputs that are most significant to the valuation of these loans are the discount rate (consisting of an observable risk free rate and an unobservable illiquidity premium), the current property value, the assumed future property growth and the assumed future annual property rental yields.
- Liabilities of £1,688m as at 31 December 2022 (2021: £1,241m), 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.

32.3.3 Governance of level 3 valuations

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

32 Fair value methodology continued

32.4 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 33.

As at 31 December	Note	2022 Level 1 £m	 Level 2 £m	 Level 3 £m	 Total £m
With-profits:					
Investment property		–	–	15,132	15,132
Equity securities and pooled investment funds		40,155	5,322	13,087	58,564
Loans		–	137	145	282
Debt securities		13,685	26,380	4,725	44,790
Derivative assets		52	2,350	1	2,403
Total with-profits		53,892	34,189	33,090	121,171
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		–	–	934	934
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	6,003	14,506
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		–	–	16,505	16,505
Equity securities and pooled investment funds	33	51,110	5,837	13,180	70,127
Loans		–	137	1,079	1,216
Debt securities	33	17,366	36,505	8,950	62,821
Derivative assets	33	57	2,767	26	2,850
Total assets at fair value		68,533	45,246	39,740	153,519

32 Fair value methodology continued

As at 31 December	Note	2021 Level 1 £m	Level 2 £m	Level 3 £m	Total £m
With-profits:					
Investment property		–	–	17,707	17,707
Equity securities and pooled investment funds		45,599	4,162	10,884	60,645
Loans		–	141	1,411	1,552
Debt securities		28,014	21,275	5,675	54,964
Derivative assets		65	2,553	–	2,618
Total with-profits		73,678	28,131	35,677	137,486
Unit-linked:					
Investment property		–	–	931	931
Equity securities and pooled investment funds		12,733	425	74	13,232
Debt securities		3,949	2,528	22	6,499
Derivative assets		3	2	–	5
Total unit-linked		16,685	2,955	1,027	20,667
Annuity and other long-term business:					
Investment property		–	–	1,060	1,060
Equity securities and pooled investment funds		3	–	2	5
Loans		–	–	1,723	1,723
Debt securities		5,036	6,557	6,673	18,266
Derivative assets		–	561	58	619
Total annuity and other long-term business		5,039	7,118	9,516	21,673
Other:					
Equity securities and pooled investment funds		179	–	8	187
Debt securities		731	599	–	1,330
Derivative assets		–	131	–	131
Total other		910	730	8	1,648
Group:					
Investment property		–	–	19,698	19,698
Equity securities and pooled investment funds	33	58,514	4,587	10,968	74,069
Loans		–	141	3,134	3,275
Debt securities	33	37,730	30,959	12,370	81,059
Derivative assets	33	68	3,247	58	3,373
Total assets at fair value		96,312	38,934	46,228	181,474

32.5 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:

As at 31 December	2022 Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Investment contract liabilities without discretionary participation features	**–**	**11,937**	**–**	**11,937**
Third party interest in consolidated funds	**7,372**	**1,329**	**1,688**	**10,389**
Subordinated liabilities and other borrowings	**–**	**–**	**–**	**–**
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**

32 Fair value methodology continued

As at 31 December	2021 Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Investment contract liabilities without discretionary participation features	–	14,884	–	14,884
Third party interest in consolidated funds	7,170	4,225	1,241	12,636
Subordinated liabilities and other borrowings	–	–	1,159	1,159
Derivative liabilities	37	2,648	4	2,689
Accruals, deferred income and other liabilities	–	–	403	403
Total liabilities at fair value	7,207	21,757	2,807	31,771

32.6 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.

	2022			
	Transfers between levels			
For the year ended 31 December	Equity securities and pooled investment funds £m	Debt securities £m	Derivatives £m	Total £m
From level 1 to level 2[i]	**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	**–**	**582**	**–**	**582**
From level 3 to level 1	**9**	**–**	**–**	**9**
From level 3 to level 2	**137**	**555**	**–**	**692**

i Movements arising from refinements made to the Group's levelling policy during the year ended 31 December 2022.

	2021			
	Transfers between levels			
For the year ended 31 December	Equity securities and pooled investment funds £m	Debt securities £m	Derivatives £m	Total £m
From level 1 to level 2	1	1,372	–	1,373
From level 1 to level 3	5	–	–	5
From level 2 to level 1[i]	–	10,921	–	10,921
From level 2 to level 3[ii]	451	364	54	869
From level 3 to level 1	1	–	–	1
From level 3 to level 2	35	172	–	207

i Movements arsing from refinements made to the Group's levelling policy during the year ended 31 December 2021.
ii The transfer of £54m of derivatives from level 2 to level 3 consists of £58m of assets and £4m of liabilities.

32 Fair value methodology continued

32.7 Reconciliation of movements in level 3 assets and liabilities

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

	For the year ended 31 December 2022										
	At 1 Jan £m	Total gains/ (losses) recorded in income statement £m	Foreign exchange £m	Purchases and other[i] £m	Sales and other[ii] £m	Transfer to held for sale £m	Settled[iii] £m	Issued £m	Transfers into level 3 £m	Transfers out of level 3 £m	At 31 Dec £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	**3,134**	**(781)**	**2**	**109**	**(30)**	**–**	**(1,355)**	**–**	**–**	**–**	**1,079**
Debt securities	**12,370**	**(3,401)**	**8**	**760**	**(818)**	**–**	**–**	**–**	**586**	**(555)**	**8,950**
Derivative assets	**58**	**(31)**	**–**	**2**	**(3)**	**–**	**–**	**–**	**–**	**–**	**26**
Total level 3 assets	**46,228**	**(5,271)**	**342**	**7,253**	**(7,367)**	**24**	**(1,355)**	**–**	**587**	**(701)**	**39,740**
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 liabilities	**403**	**(148)**	**–**	**–**	**–**	**–**	**(9)**	**–**	**–**	**–**	**246**
Total level 3 liabilities	**2,807**	**(170)**	**16**	**5**	**–**	**–**	**(1,257)**	**542**	**–**	**–**	**1,943**

i Included within purchases and other of £3,683m for Equity securities and pooled investment funds for the year ended 31 December 2022 is £1,216m associated with the deconsolidation of the M&G European Property Fund in the period.

ii Included within sales and other of £4,643m for Investment property for the year ended 31 December 2022 is £3,955m associated with the deconsolidation of the M&G European Property Fund in the period.

iii Included within settled for Loans and Borrowings and subordinated liabilities for the year ended 31 December 2022 is the impact from the deconsolidation of the buy-to-let mortgages held by a securitisation vehicle as a result of the change in control during the period.

32 Fair value methodology continued

	For the year ended 31 December 2021										
	At 1 Jan £m	Total gains/ (losses) recorded in income statement £m	Foreign exchange £m	Purchases and other £m	Sales and other £m	Transfer to held for sale £m	Settled £m	Issued £m	Transfers into level 3 £m	Transfers out of level 3 £m	At 31 Dec £m
Level 3 assets:											
Investment property	19,106	1,258	(411)	2,002	(1,310)	(947)	–	–	–	–	19,698
Equity securities and pooled investment funds	8,458	2,147	(1)	1,830	(1,886)	–	–	–	456	(36)	10,968
Loans	3,220	1	(1)	99	(20)	–	(165)	–	–	–	3,134
Debt securities	12,584	(393)	–	1,329	(1,342)	–	–	–	364	(172)	12,370
Derivative assets	–	–	–	–	–	–	–	–	58	–	58
Total level 3 assets	43,368	3,013	(413)	5,260	(4,558)	(947)	(165)	–	878	(208)	46,228
Level 3 liabilities:											
Third party interest in consolidated funds	1,407	91	2	–	–	–	(711)	452	–	–	1,241
Borrowings and subordinated liabilities	1,301	–	–	–	–	–	(142)	–	–	–	1,159
Derivative liabilities	–	–	–	–	–	–	–	–	4	–	4
Other liabilities	409	1	–	–	–	–	(7)	–	–	–	403
Total level 3 liabilities	3,117	92	2	–	–	–	(860)	452	4	–	2,807

32.8 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:

For the year ended 31 December	2022 £m	2021 £m
Investment property	**(1,538)**	918
Equity securities and pooled investment funds	**452**	2,407
Loans	**(781)**	1
Debt securities	**(3,350)**	(332)
Derivatives	**(33)**	–
Third party interest in consolidated funds	**(9)**	(51)
Other financial liabilities	**(148)**	1
Total	**(5,407)**	2,944

32 Fair value methodology continued

32.9 Fair value level 3 inputs and sensitivities

32.9.1 Level 3 asset 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:

			Average estimated rental value[i]		Average equivalent yield	
As at 31 December	Property type	Geographical location	2022	2021	2022	2021
Investment property	Industrial	UK	**£9**	£9	**6.31%**	4.98%
		Europe[ii]	**n/a**	€55	**n/a**	4.43%
		Asia/Pacific	**$96**	$98	**6.31%**	5.11%
	Office	UK	**£39**	£34	**6.18%**	5.42%
		Europe[ii]	**n/a**	€304	**n/a**	4.26%
		Asia/Pacific	**$442**	$509	**5.48%**	5.26%
		North America	**$45**	$46	**5.75%**	5.25%
	Residential	UK	**£37**	£31	**3.96%**	3.77%
		Europe	**€330**	€244	**3.62%**	3.72%
		Asia/Pacific	**$258**	$275	**5.32%**	4.97%
	Retail	UK	**£27**	£28	**6.51%**	6.34%
		Europe[ii]	**n/a**	€537	**n/a**	4.29%
		Asia/Pacific	**$295**	$310	**6.92%**	6.75%
	Other	UK	**£38**	£27	**5.77%**	6.40%
		Europe	**€110**	€132	**6.45%**	5.38%
		Asia/Pacific	**$195**	$213	**8.50%**	8.00%

i The average estimated rental value for the UK and North America is quoted per square foot, whilst the average estimated rental value for Europe and Asia/Pacific is quoted per square metre in line with local practice.

ii For the year ended 31 December 2022 there are no equivalent inputs due to the deconsolidation of the M&G European Property Fund.

Other assets:

As at 31 December	Unobservable input	2022	2021
Retail income strips	Discount rate	**1.06% to 5.00%**	(1.86%) to 3.03%
Equity release mortgages	Illiquidity premium	**2.07%**	1.10%
	Total portfolio property value	**c. £3.4bn**	c.£3.3bn
	Assumed property growth rate	**2.65%**	3.05%
	Property rental yield	**2.00%**	2.00%
Private placement loans	*Credit risk premium:*		
	AAA to A	**0.60% to 1.81%**	0.33% to 1.08%
	BBB to BB	**1.45% to 5.86%**	0.48% to 3.59%
Infrastructure fund investments	Discount rate	**7.75% to 12%**	7.75% to 12%

32.9.2 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 most significant unobservable inputs on their fair value, and the impact on IFRS profit after tax and shareholders' equity for those held within the shareholder backed-funds.

32 Fair value methodology continued

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[vi] £m
	2022						
Investment property							
Property in use	**15,371**	**1,368**	Income capitalisation	Equivalent yield	Decrease by 50bps	**1,715**	**125**
					Increase by 50bps	**(1,419)**	**(102)**
				Estimated rental value	Decrease by 10%	**(1,260)**	**(69)**
					Increase 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 mortgage and retail loans	**145**	**–**	Broker quotes[iii]	Broker quotes	Increase by 10%	**15**	**–**
					Decrease by 10%	**(15)**	**–**
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[iv]	**497**	**–**	Discounted cash flow[iv]	Discount rate	Increase by 10%	**(75)**	**–**
					Decrease by 10%	**88**	**–**
Debt securities[iv]							
Private placement loans	**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[v]	Discount rate	Increase by 50bps	**(1)**	**(1)**
					Decrease by 50bps	**1**	**1**
Total level 3	**39,740**	**6,650**					

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.

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

iii Quotes received from an external pricing service.

iv Infrastructure fund investments comprises £213m (31 December 2021: £88m) of equity securities and pooled investment funds and £284m (31 December 2021: £292m) 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 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 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.

vi Of the £6,650m (31 December 2021: £10,529m) of level 3 assets held in shareholder-backed funds, £549m (2021: £1,027m) 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 shareholders' equity.

32 Fair value methodology continued

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[vi] £m
	2021						
Investment property							
Property in use	18,934	1,965	Income capitalisation	Equivalent yield	Decrease by 50bps	2,326	163
					Increase by 50bps	(1,882)	(129)
				Estimated rental value	Decrease by 10%	(1,621)	(80)
					Increase by 10%	1,710	80
Property under development	764	26		Development cost	Increase by 10%	76	–
					Decrease by 10%	(76)	–
Loans							
Equity-release mortgages[i]	1,723	1,723	Discounted cash flow[ii]	Illiquidity premium	Increase by 50bps	(140)	(158)
					Decrease by 50bps	155	174
				Current property value	Increase by 10%	44	50
					Decrease by 10%	(53)	(60)
				Assumed annual property growth rate	Increase by 100bps	127	143
					Decrease by 100bps	(178)	(201)
				Assumed annual property rental yield	Increase by 100bps	(83)	(93)
					Decrease by 100bps	79	89
Other mortgage and retail loans	1,411	–	Broker quotes[iii]	Broker quotes	Increase by 10%	141	–
					Decrease by 10%	(141)	–
Equity securities and pooled investment funds[iv]	10,880	84	Net asset statements	Net asset value	Increase by 10%	1,088	1
					Decrease by 10%	(1,088)	(1)
Infrastructure fund investments[iv]	380	–	Discounted cash flow[iv]	Discount rate	Increase by 10%	(34)	–
					Decrease by 10%	34	–
Debt securities[iv]							
Private placement loans	8,776	5,225	Discounted cash flow[vi]	Discount rate	Increase by 40bps	(649)	(487)
					Decrease by 40bps	728	548
Retail income strips	391	331	Discounted cash flow[vi]	Discount rate	Increase by 50bps	(41)	(41)
					Decrease by 50bps	52	52
Unquoted corporate bonds	2,911	1,117	Broker quotes, enterprise valuation, estimated recovery	Broker quotes	Increase by 10%	291	126
					Decrease by 10%	(291)	(126)
Derivative assets	58	58	Discounted cash flow[v]	Discount rate	Increase by 50bps	(2)	(2)
					Decrease by 50bps	2	2
Total level 3	46,228	10,529					

32 Fair value methodology continued

32.10 Fair value of assets and liabilities at amortised cost

The tables below show the assets and liabilities carried at amortised cost on the 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:

	2022				
As at 31 December	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m	Total carrying value £m
Assets:					
Loans	**–**	**369**	**1,648**	**2,017**	**2,114**
Liabilities:					
Subordinated liabilities and other borrowings	**–**	**6,416**	**6**	**6,422**	**7,537**

	2021				
As at 31 December	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m	Total carrying value £m
Assets:					
Loans	–	512	2,089	2,601	2,534
Liabilities:					
Subordinated liabilities and other borrowings	–	7,682	201	7,883	7,771

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

33 Risk management and sensitivity analysis

33.1 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 has been designed to identify, assess, measure, manage, monitor and report on the principal risks of the Group. Risk management is designed to increase the Group's understanding of the risks inherent in the business, improve decision-making and prevent the Group from failing to achieve its business objectives, including delivery of fair client outcomes.

The RMF is codified through risk policies and business standards which set out the management framework for key risk types, including risk appetite, and minimum standards for the Group's operations. To ensure completeness and consistency when comparing risk information across the Group, a common methodology for categorising risk has been adopted.

Risk appetite is the amount and type of risk that is acceptable to the Group, as determined by the Board, and is a function of the Group's strategic and business objectives and its capital resources. Risk appetite therefore refers to the Group's attitude towards risk-taking and whether it is willing and able to tolerate either a high or a low level, or none of specific risks or risk groups. As a result, risk appetite has a central role in informing decision-making across the Group and assisting in the optimisation of return on capital invested.

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 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 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.
Demographic risk	The risk of loss for the Group, or of adverse change in the financial situation of the business, resulting from changes in the level, trend or volatility of a number of demographic risk drivers. These include: – Mortality/longevity risk: the risk of loss, the inability to meet contractual or other liabilities, and/or profit volatility resulting from adverse mortality and/or longevity experience compared to that estimated within pricing, underwriting and valuation. – Morbidity risk: the risk of loss, the inability to meet contractual or other liabilities, and/or profit volatility resulting from adverse morbidity experience compared to that estimated within pricing, underwriting and valuation. – Persistency risk: the risk of loss, the inability to meet contractual or other liabilities, and/or profit volatility resulting from an adverse persistency experience compared to that estimated within pricing and valuation.
Expense and margin pricing risk	The risk of loss, the inability to meet contractual or other liabilities, and/or profit volatility resulting from adverse experience in expenses other than those estimated within pricing and valuation when considering insurance contracts or funds under management.
Liquidity risk	Treasury liquidity risk is the risk of loss for the Group's business, or of adverse changes in its financial situation, resulting from the Group's inability to generate sufficient cash resources to meet financial obligations (for example, claims, creditors and planned dividends) as they fall due. 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 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.

33 Risk management and sensitivity analysis continued

Analysis of consolidated statement of financial position by component of business

		Shareholder-backed funds			
As at 31 December 2022	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	–	–	77	17	94
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	–	26	297	1,953
Investment property	15,132	497	876	–	16,505
Deferred tax assets	27	–	499	125	651
Reinsurance assets	23	85	1,078	–	1,186
Equity securities and pooled investment funds	58,564	11,336	7	220	70,127
Loans	1,929	–	1,401	–	3,330
Debt securities	44,790	4,466	12,399	1,166	62,821
Derivative assets	2,403	7	290	150	2,850
Deposits	17,757	1,567	2,077	–	21,401
Current tax and other tax assets	133	29	114	13	289
Accrued investment income and other debtors	1,454	329	261	296	2,340
Assets held for sale	447	79	–	158	684
Cash and cash equivalents	2,857	563	604	860	4,884
Total assets	**147,936**	**18,958**	**19,744**	**4,922**	**191,560**
Liabilities:					
Insurance contract liabilities	32,299	4,214	13,292	–	49,805
Investment contract liabilities with discretionary participation features	78,539	–	55	–	78,594
Investment contract liabilities without discretionary participation features	3	11,900	34	–	11,937
Unallocated surplus of the With-Profits Fund	15,130	–	–	–	15,130
Third party interest in consolidated funds	8,244	2,086	5	54	10,389
Subordinated liabilities and other borrowings	3,757	45	6	3,729	7,537
Defined benefit pension liability	–	–	–	–	–
Deferred tax liabilities	777	–	2	1	780
Lease liabilities	85	–	15	320	420
Current tax and other tax liabilities	9	16	74	14	113
Derivative liabilities	2,213	9	1,748	215	4,185
Other financial liabilities	1,928	–	89	155	2,172
Provisions	–	–	19	71	90
Accruals, deferred income and other liabilities	4,780	688	1,663	275	7,406
Liabilities held for sale	172	–	–	–	172
Total liabilities	**147,936**	**18,958**	**17,002**	**4,834**	**188,730**
Total equity					**2,830**
Total equity and liabilities					**191,560**

33 Risk management and sensitivity analysis continued

As at 31 December 2021	Restated[i] With-profits £m	Shareholder-backed funds Unit-linked £m	Annuity and other long-term business £m	Other £m	Total £m
Assets:					
Goodwill and intangible assets	286	–	27	1,302	1,615
Deferred acquisition costs	–	–	78	16	94
Defined benefit pension asset	27	–	–	11	38
Investment in joint ventures and associates accounted for using the equity method	469	–	–	–	469
Property, plant and equipment	2,239	–	27	270	2,536
Investment property	17,707	931	1,060	–	19,698
Deferred tax assets	49	–	1	69	119
Reinsurance assets	20	101	1,548	–	1,669
Equity securities and pooled investment funds	60,645	13,232	5	187	74,069
Loans	3,578	–	2,231	–	5,809
Debt securities	54,964	6,499	18,266	1,330	81,059
Derivative assets	2,618	5	619	131	3,373
Deposits	14,066	1,852	1,715	–	17,633
Current tax and other tax assets	281	1	88	5	375
Accrued investment income and other debtors	1,559	380	443	265	2,647
Assets held for sale	646	249	–	128	1,023
Cash and cash equivalents	3,773	460	1,012	1,663	6,908
Total assets	162,927	23,710	27,120	5,377	219,134
Liabilities:					
Insurance contract liabilities	39,203	4,978	19,042	–	63,223
Investment contract liabilities with discretionary participation features	82,700	–	43	–	82,743
Investment contract liabilities without discretionary participation features	3	14,835	46	–	14,884
Unallocated surplus of the With-Profits Fund	16,723	–	–	–	16,723
Third party interest in consolidated funds	9,835	2,767	9	25	12,636
Subordinated liabilities and other borrowings	5,117	–	107	3,706	8,930
Defined benefit pension liability	20	–	30	34	84
Deferred tax liabilities	1,391	–	28	–	1,419
Lease liabilities	95	3	18	297	413
Current tax and other tax liabilities	178	46	113	22	359
Derivative liabilities	1,227	3	1,127	332	2,689
Other financial liabilities	2,690	–	79	113	2,882
Provisions	–	–	26	112	138
Accruals, deferred income and other liabilities	3,745	1,078	1,810	33	6,666
Liabilities held for sale	–	–	–	–	–
Total liabilities	162,927	23,710	22,478	4,674	213,789
Total equity					5,345
Total equity and liabilities					219,134

i Following a review of the Group's presentation of tax positions within consolidated investment funds, comparative amounts have been restated from those previously reported. The restatement has had no impact on profit for the year or net assets. See Note 1.1 for further information.

The financial assets and liabilities attaching to the Group's business are, to varying degrees, subject to the risks described previously and these risks may have a material effect on profit or loss and shareholders' equity. This is discussed below by component of business.

33 Risk management and sensitivity analysis continued

33.1.1 With-profits business

The With-Profits Fund mainly contains with-profits business but it also contains some non-profit business (unit-linked, term assurances and annuities). As at 31 December 2022, the With-Profits Fund included £6,693m (2021: £9,321m) of non-profit annuity liabilities.

WPSF

The shareholder exposure to the WPSF business (including non-profit annuity business of the WPSF) is sensitive to market and credit risk through the indirect effect of investment performance on declared policyholder bonuses. The investment assets of the WPSF are subject to market and credit risk. Changes in their carrying value, net of related changes to asset-share liabilities of with-profits contracts, affect the level of unallocated surplus of the fund. Therefore, the level of unallocated surplus is particularly sensitive to the level of investment returns on the portion of the assets that represents the surplus. However, as unallocated surplus is accounted for as a liability under IFRS 4, movements in its value do not affect shareholders' profit and equity, so the shareholder is not directly exposed to changes in the assets and liabilities within the WPSF.

The shareholder result for most business in the WPSF is one-ninth of the cost of bonuses declared to with-profits policyholders. For certain with-profits contracts, such as those invested in the PruFund range of funds, the bonuses represent the policyholders' net return based on the smoothed unit price of the selected investment fund. Investment performance is a key driver of bonuses declared, and hence the shareholder results. Due to the "smoothed" basis of bonus declaration, the sensitivity to short-term investment performance and other insurance risks is relatively low. However, long-term investment performance and persistency trends may affect future shareholder transfers.

The equity risk relating to the future shareholder transfers from the WPSF is partially hedged, and this is described in Note 33.7.1.

DCPSF

The DCPSF is shown as part of the with-profits consolidated statement of financial position. For similar reasons to those described in relation to the WPSF, shareholders are not directly exposed to the movements in the assets and liabilities of the DCPSF. Instead, the shareholders' exposure is through the charges arising on the business less the expenses incurred. The charges incurred on the business are dependent on the value of the funds under management and are therefore indirectly exposed to market risk, credit risk and persistency risk.

SAIF

Up until 1 April 2021 SAIF was a ring-fenced fund, shown as part of the with-profits consolidated statement of financial position, in which, apart from asset management fees, shareholders have no entitlement to the profits of the fund. On 1 April 2021 SAIF merged with PAC's WPSF and the assets and liabilities of SAIF were combined with those of the WPSF. Shareholders will continue to have no entitlement to profit transfers and will continue to receive asset management fees. Accordingly, the Group's profit and shareholders' funds are not sensitive to the direct effects of risk attaching to SAIF's assets and liabilities.

33.1.2 Unit-linked business

Unit-linked business represents a comparatively small proportion of the in-force business of the Group's insurance operations. Due to policyholder liabilities moving in line with attaching asset value movements, the shareholders' exposure to the unit-linked business is not directly affected by market or credit risk. Profits from unit-linked contracts primarily arise from the excess of charges to policyholders for management of assets over expenses incurred. The charges received are sensitive to the movement in funds under management due to investment performance, as well as persistency experience. The accounting impact of the expenses incurred is dependent upon the amortisation of acquisition costs in line with the emergence of margins (for insurance contracts) and amortisation in line with service provision (for the investment management component of investment contracts). By virtue of the design features of most of the contracts which provide low levels of mortality cover, the profit is relatively insensitive to changes in mortality experience. Amounts under unit-linked contracts are generally repayable on demand and the Group is responsible for ensuring there is sufficient liquidity within the asset portfolio to enable liabilities to unit-linked policyholders to be met as they fall due.

In the consolidated statement of financial position by component of business, the unit-linked business is shown as having no contribution to shareholders' equity. This is because the surplus assets of the unit-linked business have been allocated to the "annuity and other long-term business" component for presentation purposes as they are pooled with the surplus assets of this business. Despite this presentation, shareholders are exposed to the risks arising from unit-linked business as described above.

33 Risk management and sensitivity analysis continued

33.1.3 Annuity and other long-term business

The Group's shareholder-backed annuity liabilities are exposed to market movements, but these are closely matched with assets of an appropriate duration. The level of matching from year to year can vary depending on management actions and economic factors and therefore it is possible for a degree of mismatching exposure to arise. Aside from the extent of any asset/liability duration mismatch, the sensitivity to market risk arising from movements in the value of annuity liabilities net of covering assets is broadly neutral. However, the assets held in excess of the liabilities, which back the capital requirements of the annuity business, result in exposure to market risk. These assets are primarily debt securities.

Shareholders are directly exposed to credit risk (asset default, downgrade and spread widening) arising on the assets held within the shareholder-backed funds, and the corresponding impact on the measurement of the liabilities. The shareholder-backed annuity results are particularly sensitive to changes in assumptions about future mortality improvements which impact the measurement of the liabilities, and also to the variance between actual and expected mortality experience each year. The results are also sensitive to changes in expense levels over the longer term.

Also included within this component of business are the Group's lifetime mortgage assets, whose value can vary in line with market and demographic factors. Further detail on the valuation of these assets is provided in Note 33.3.2.

The assets and liabilities of the other long-term business, which includes legacy protection business, are not significant in the context of the Group's financial assets and liabilities and therefore do not contribute significantly to the Group's risk exposure.

33.1.4 Other

This includes the financial assets and liabilities of the Group's asset management, platform business and other Group-level functions, including, central and treasury operations. The Group is exposed to market and credit risk in respect of financial assets held by the "other" component of business, although this direct exposure to market and credit risk is not significant to the results of the Group.

The ongoing profit arising from the asset management business is exposed to the risk that changes in market prices, such as foreign exchange rates, interest rates, equity prices and property will affect income earned from investment management activities. The profit arising from this business is also sensitive to the level of net client flows and to the level of expenses.

33.2 IFRS profit after tax and With-Profits Fund liability sensitivity analysis

33.2.1 IFRS profit after tax sensitivity analysis

The impacts on IFRS profit after tax and shareholders' equity to the key economic and non-economic risks which may impact profit are summarised below. These risks are described in further detail throughout this note, including the disclosure of additional market risk sensitivities.

As at 31 December	Note	2022 £m	2021 £m
Economic sensitivities			
100bp increase in interest rates	33.3.1	**(261)**	(890)
100bp decrease in interest rates	33.3.1	**289**	1,074
10% fall in equity and property markets (excluding hedges)	33.3.2	**(78)**	(95)
10% fall in equity and property markets	33.3.2	**28**	28
5bps increase in credit default/downgrade allowance	33.4	**(35)**	(64)
Non-economic sensitivities			
1% decrease in base annuitant mortality assumptions	33.5	**(22)**	(30)
5% increase in maintenance expense assumptions	33.5	**(10)**	(13)
0.25% increase in annuitant mortality improvements	33.5	**(22)**	(46)

The sensitivities capture the immediate effects of an event occurring, as opposed to the longer-term or second-order effects which may impact future profits, and do not reflect management actions which could be taken to mitigate the impacts of these events occurring.

The interest rate stresses reflect a parallel shift in the nominal rate of interest at all durations. As described in Note 33.3.1, the impact on IFRS profit after tax predominantly arises from assets held in excess of the liabilities.

The equity and property sensitivities are presented both excluding and including the equity hedges relating to future shareholder transfers. As the majority of the hedges are in respect of shareholder transfers expected to arise in future years, which do not impact IFRS profit after tax until these emerge, the fair value movement in these hedges creates a temporary mismatch within IFRS profit after tax. For this reason the presentation of this sensitivity, excluding the impact of these hedges, gives the most appropriate representation of the Group's exposure to equity and property risk.

The credit default/downgrade sensitivity represents a 5bp increase in the assumed level of defaults and downgrades allowed for within the valuation interest rate when valuing policyholder liabilities in respect of non-profit annuity business.

33 Risk management and sensitivity analysis continued

The annuitant mortality sensitivity is a 1% reduction in the mortality rates for immediate and deferred annuitants with no change to mortality improvement rates, for the Group's non-profit annuity business. The 0.25% per annum mortality improvements sensitivity increases the rate at which mortality rates are expected to decline relative to the best estimate assumption.

The maintenance expense sensitivity is a 5% increase in future maintenance expense assumptions across all lines of business.

The credit default/downgrade allowance, annuitant mortality and maintenance expense sensitivities show the impact on IFRS profit after tax of changes in the Group's key estimates and assumptions when valuing policyholder liabilities as described in Note 1.4 and Note 26.1. The impact of this sensitivity on IFRS profit after tax is directly through a change in the policyholder liabilities.

33.2.2 With-Profits Fund liability sensitivity analysis

For business written in the Group's With-Profits Fund, the change in the policyholder liabilities is directly offset by a corresponding change in unallocated surplus of the With-Profits Fund and therefore has no impact on IFRS profit after tax.

Persistency assumptions and mortality assumptions in respect of the annuities in the With-Profits fund are key judgements in determining the With-Profits Fund policyholder liability valuations but have no impact on IFRS profit after tax. The impact from those sensitivities on the policyholder liabilities within the With-Profits Fund are shown in the table below:

As at 31 December	Note	2022 £m	2021 £m
Non-economic sensitivities			
10% increase in persistency assumptions		**84**	(53)
10% decrease in persistency assumptions		**(58)**	57
1% decrease in base mortality assumptions		**42**	64
0.25% increase in mortality improvements		**38**	100

A reduction in lapse rates increases the liability for traditional with-profits products as a result of the associated high cost of guarantees, but reduces the liability for PruFund products (which have a low cost of guarantees) by reducing charge income received. During the year ended 31 December 2021, the increase in the cost of guarantees on traditional with-profits products outweighed the increase in charge income received on PruFund products following a decrease in lapse rates, resulting in a net increase in liability. However, the cost of guarantees is sensitive to interest rates, and following the large increase in interest rates during the year ended 31 December 2022, the increase in the cost of guarantees following a reduction in lapse rates is outweighed by the increase in charge income received on PruFund products.

33.3 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 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 relationships
- 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 (other than those detailed above)

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 clients share the investment risk through the structure of the Group's products. In particular, the shareholder is only directly exposed to market risk on the assets held within the "annuities and other long-term business" and "other" components of business, which are predominantly debt securities and investment properties in respect of the annuity funds.

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.

33 Risk management and sensitivity analysis continued

33.3.1 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.

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.

The estimated sensitivity of profit to a movement in interest rates downwards of 1% and upwards of 1% and 2% is noted in the tables below:

	2022		
As at 31 December	Decrease of 1% £m	Increase of 1% £m	Increase of 2% £m
Carrying value of debt securities and derivatives	**1,408**	**(1,234)**	**(2,329)**
Policyholder liabilities	**(1,023)**	**886**	**1,658**
Related deferred tax effects	**(96)**	**87**	**168**
Net sensitivity of profit after tax and shareholders' equity	**289**	**(261)**	**(503)**

	2021		
As at 31 December	Decrease of 1% £m	Increase of 1% £m	Increase of 2% £m
Carrying value of debt securities and derivatives	3,319	(2,773)	(5,189)
Policyholder liabilities	(1,887)	1,586	2,931
Related deferred tax effects	(358)	297	557
Net sensitivity of profit after tax and shareholders' equity	1,074	(890)	(1,701)

The impact of the carrying value of assets, policyholder liabilities and deferred tax effects are in respect of the shareholder-backed business only, with the majority of the impact arising from the shareholder-backed annuities.

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.

33.3.2 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. Instead, 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.

Excluding any longer-term, indirect effects on profit due to the future value of shareholder transfers from with-profits business and charges levied on unit-linked and asset management business, a fall in the fair value of these investments would have given rise to the following effects on pre-tax profit, profit after tax, and shareholders' equity. The majority of the sensitivity arises in respect of investment property assets held in the annuity funds.

33 Risk management and sensitivity analysis continued

The impact of the sensitivities excluding equity hedges is shown below.

For the year ended 31 December	2022 Decrease of 20% £m	2022 Decrease of 10% £m	2021 Decrease of 20% £m	2021 Decrease of 10% £m
Pre-tax profit	**(208)**	**(104)**	(252)	(125)
Related deferred tax effects	**52**	**26**	64	30
Net sensitivity of profit after tax and shareholders' equity	**(156)**	**(78)**	(188)	(95)

A 10% or 20% increase in their value would have an approximately equal and opposite effect on profit and shareholders' equity to the sensitivities shown above. The market risk sensitivities shown above reflect the impact of temporary market movements.

In the equity risk sensitivity analysis shown above, the Group has considered the impact of an instantaneous 10% or 20% fall in equity markets. If equity markets were to fall by more than 20%, the Group believes that this would not be an instantaneous fall but rather would be expected to occur over a period of time, during which the Group would be able to put in place mitigating management actions.

As noted above, the analysis excludes the indirect exposure of ongoing profit to equity and property risk through the impact on policyholder bonuses on with-profits business and charges levied on unit-linked and asset management business. 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. Due to the mismatch that results from a difference in the timing of fair value movements on the hedges and the emergence of the underlying shareholder transfers, the above sensitivities do not include the impact of these hedges as this gives the most appropriate representation of the Group's exposure to equity and property risk.

The impact of the sensitivities allowing for the equity hedges is shown below.

For the year ended 31 December	2022 Decrease of 20% £m	2022 Decrease of 10% £m	2021 Decrease of 20% £m	2021 Decrease of 10% £m
Pre-tax profit	**62**	**37**	71	38
Related deferred tax effects	**(15)**	**(9)**	(18)	(10)
Net sensitivity of profit after tax and shareholders' equity	**47**	**28**	53	28

33.3.3 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.

As at 31 December 2022, the Group held 50% (2021: 44%) and 13% (2021: 9%) of its financial assets and financial liabilities respectively, in currencies, mainly US dollar and euro, other than pounds sterling, the functional currency of the Group.

Of these financial assets, as at 31 December 2022, 74% (2021: 71%) 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 2022, 96% (2021: 86%) 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 2022, exchange gains of £562m (2021: losses of £120m) were recognised in the 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 4.

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.

33 Risk management and sensitivity analysis continued

33.4 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. The sensitivity of IFRS profit after tax and IFRS shareholders' equity to a change in the credit default and downgrade allowance within the valuation rate of interest of shareholder-backed non-profit annuities is shown in Note 33.2.

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.

33.4.1 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.

As at 31 December 2022	AAA £m	AA+ to AA- £m	A+ to A- £m	BBB+ to BBB- £m	Below BBB- £m	Other £m	Total £m
Accrued investment income and other debtors	**38**	**82**	**140**	**155**	**64**	**1,861**	**2,340**
Cash and cash equivalents	**224**	**1,060**	**3,342**	**144**	**18**	**96**	**4,884**
Debt securities	**6,651**	**12,632**	**11,774**	**16,147**	**4,377**	**11,240**	**62,821**
Deposits	**–**	**2,011**	**14,952**	**3,594**	**–**	**844**	**21,401**
Loans held at fair value	**–**	**–**	**934**	**5**	**143**	**134**	**1,216**
Loans held at amortised cost	**–**	**–**	**105**	**169**	**540**	**1,300**	**2,114**
Reinsurance assets	**–**	**247**	**666**	**1**	**–**	**272**	**1,186**
Total financial assets	**6,913**	**16,032**	**31,913**	**20,215**	**5,142**	**15,747**	**95,962**

As at 31 December 2021	AAA £m	AA+ to AA- £m	A+ to A- £m	BBB+ to BBB- £m	Below BBB- £m	Other £m	Total £m
Accrued investment income and other debtors	72	89	138	197	64	2,087	2,647
Cash and cash equivalents	–	840	5,396	562	9	101	6,908
Debt securities	7,857	18,093	14,103	19,058	6,589	15,359	81,059
Deposits	–	4,376	7,857	4,278	–	1,122	17,633
Loans held at fair value	789	1,956	60	18	50	402	3,275
Loans held at amortised cost	–	–	69	175	285	2,005	2,534
Reinsurance assets	–	750	(43)	1,053	–	(91)	1,669
Total financial assets	8,718	26,104	27,580	25,341	6,997	20,985	115,725

The credit ratings, information or data contained in this report which are attributed and specifically provided by Standard & Poor's, Moody's and Fitch 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.

33 Risk management and sensitivity analysis continued

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.

Of the total loans and accrued investment income & other debtors held as at 31 December 2022, £31m (2021: £64m) were past their due date but were not impaired. Of the total past due but not impaired, all were less than one year past their due date. The Group expects full recovery of these loans and accrued investment income & other debtors.

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	2022 £m	2021 £m
AAA	**43**	53
AA+ to AA-	**1,548**	3,326
A+ to A-	**3,844**	5,301
BBB+ to BBB-	**1,845**	2,215
Below BBB-	**786**	859
Unrated	**3,174**	3,605
Total	**11,240**	15,359

33.4.2 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 33.1.

As at 31 December 2022	AAA £m	AA+ to AA- £m	A+ to A- £m	BBB+ to BBB- £m	Below BBB- £m	Other[i] £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**

i Debt securities with no external credit rating are classified as "Other"

33 Risk management and sensitivity analysis continued

As at 31 December 2021	AAA £m	AA+ to AA- £m	A+ to A- £m	BBB+ to BBB- £m	Below BBB- £m	Other[1] £m	Total £m
Government sovereign debt	4,098	11,299	1,382	1,226	1,135	340	19,480
With-profits	2,709	6,651	1,197	1,110	1,105	201	12,973
Unit-linked	245	1,858	164	76	26	3	2,372
Annuity and other long-term business	1,105	2,093	21	38	–	136	3,393
Other	39	697	–	2	4	–	742
Quasi-sovereign and public sector debt	509	2,605	358	112	47	518	4,149
With-profits	297	1,197	328	110	41	464	2,437
Unit-linked	45	156	21	2	6	4	234
Annuity and other long-term business	167	1,252	9	–	–	50	1,478
Corporate debt	1,938	3,842	11,751	17,450	5,353	13,314	53,648
With-profits	1,296	2,208	8,543	13,376	4,651	6,747	36,821
Unit-linked	157	233	1,017	1,788	519	51	3,765
Annuity and other long-term business	317	1,307	2,087	2,279	157	6,515	12,662
Other	168	94	104	7	26	1	400
Asset-backed securities	1,312	347	612	270	54	1,187	3,782
With-profits	972	228	299	142	53	1,039	2,733
Unit-linked	38	22	18	38	1	11	128
Annuity and other long-term business	114	97	295	90	–	137	733
Other	188	–	–	–	–	–	188
Total debt securities	7,857	18,093	14,103	19,058	6,589	15,359	81,059
With-profits	5,274	10,284	10,367	14,738	5,850	8,451	54,964
Unit-linked	485	2,269	1,220	1,904	552	69	6,499
Annuity and other long-term business	1,703	4,749	2,412	2,407	157	6,838	18,266
Other	395	791	104	9	30	1	1,330

As at 31 December 2022 corporate debt exposure to banks amounted to £8,273m (2021: £9,666m).

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.

The Group's exposure to sovereign debt are analysed by issuer as follows:

	2022				
As at 31 December	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**
Indonesia	**891**	**12**	**–**	**–**	**903**
Malaysia	**566**	**8**	**–**	**–**	**574**
South Korea	**760**	**12**	**–**	**–**	**772**
Other	**4,440**	**192**	**168**	**53**	**4,853**
Total	**12,663**	**1,273**	**2,194**	**658**	**16,788**

33 Risk management and sensitivity analysis continued

As at 31 December	2021 With-profits £m	Unit-linked £m	Annuity and other long-term business £m	Other £m	Total £m
Sovereign debt securities by country:					
United Kingdom	4,552	1,860	1,988	688	9,088
Germany	178	31	150	–	359
Other European Countries	1,188	93	984	17	2,282
Total Europe	5,918	1,984	3,122	705	11,729
United States	1,763	137	1	10	1,911
Indonesia	843	11	–	–	854
Malaysia	541	8	–	–	549
South Korea	734	11	–	–	745
Other	3,174	221	270	27	3,692
Total	12,973	2,372	3,393	742	19,480

As at 31 December 2022 Other European Countries included £1,403m (2021: £1,913m) and Other included £1,226m (2021: £1,000m) of Supranational Government bonds.

33.4.3 De-recognition, 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 re-pay the cash to the Group.

As at 31 December 2022, the Group had £3,638m (2021: £5,643m) of collateral pledged to the Group under securities lending and repurchase agreements, primarily relating to the With-Profits Fund. The cash and securities collateral accepted under securities lending agreements was £5,471m (2021: £5,021m). As at 31 December 2022, 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 £15,316m (2021: £14,348m).

Collateral and pledges under derivative transactions

At 31 December 2022, the Group had pledged £2,818m (2021: £1,653m) for liabilities and held collateral of £1,318m (2021: £1,775m) 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 2022, the Group had pledged collateral of £552m (2021: £1,468m) in respect of other transactions. This primarily arises from collateral pledged in relation to deferred purchase consideration on lifetime (equity release) mortgages of £287m (2021: £420m), in addition to collateral on reinsurance exposures of £214m (2021: £206m).

33 Risk management and sensitivity analysis continued

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:

		Related amounts not offset in the consolidated statement of financial position			
As at 31 December 2022	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**

		Related amounts not offset in the consolidated statement of financial position			
As at 31 December 2021	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	3,151	(1,186)	(1,735)	(14)	216
Reverse repurchase agreements	17,458	–	–	(14,324)	3,134
Total financial assets	20,609	(1,186)	(1,735)	(14,338)	3,350
Financial liabilities:					
Derivative liabilities	2,290	(1,186)	(112)	(933)	59
Securities lending and repurchase agreements	884	–	–	(884)	–
Total financial liabilities	3,174	(1,186)	(112)	(1,817)	59

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.

33 Risk management and sensitivity analysis continued

33.5 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:

- regular reviews of best estimate assumptions, supported by detailed assessments of actual mortality experience versus the best estimate assumptions;
- longevity research; and
- longevity reinsurance arrangements.

Other demographic risks such as persistency risk and non-annuitant mortality risk, as well as expense risk, are subject to regular reviews and actions, with frequency and intensity proportionate to the materiality of the risk. Further details of the sensitivity of profit and shareholders' equity to demographic risks are described below by the components of business. The sensitivity of IFRS profit after tax and IFRS shareholders' equity to annuitant mortality and expense risk is provided in Note 33.2.

33.5.1 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.

33.5.2 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.

33.5.3 Annuity and other long-term business

Profits from shareholder-backed annuity business are most sensitive to the following demographic and expense risks:

- The extent to which changes to the assumed rate of improvements in mortality give rise to changes in the measurement of liabilities;
- The variance between actual and expected mortality experience, and its impact on current mortality assumptions; and
- Changes in maintenance expense levels.

The risk arising from the other long-term business is not significant in the context of the Group's overall liabilities.

33.6 Liquidity risk

The Group is exposed to two types of liquidity risk:

- Treasury 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 generate sufficient cash resources to meet financial obligations (for example, claims, creditors and planned dividends) as they fall due;
- 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 treasury 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, cashflow 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.

33 Risk management and sensitivity analysis continued

33.6.1 Contractual maturities of financial liabilities on an undiscounted cash flow basis

The following table sets out the contractual maturities of financial liabilities, excluding derivative liabilities that are separately presented in Section 33.6.2. 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. The numbers within the comparative table have been re-presented to include all classes of financial liabilities and additionally the subordinated liabilities and other borrowings have been adjusted to reflect fully the correct contractual undiscounted cash flow maturity profile.

As at 31 December 2022	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**	**395**	**108**	**–**	**–**	**784**	**8,986**	**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**	**939**	**–**	**–**	**–**	**–**	**–**	**1,233**	**2,172**
Accruals, deferred income and other liabilities	**6,745**	**6,438**	**110**	**87**	**114**	**109**	**191**	**–**	**7,049**
Total	**38,780**	**20,425**	**3,498**	**1,780**	**1,079**	**1,390**	**7,055**	**10,219**	**45,446**

As at 31 December 2021	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	14,884	14,884	–	–	–	–	–	–	14,884
Third party interest in consolidated funds	12,636	109	282	232	–	–	507	11,506	12,636
Subordinated liabilities and other borrowings	8,930	696	2,515	1,694	1,184	1,188	8,677	97	16,051
Other financial liabilities	2,882	884	–	–	–	–	–	1,998	2,882
Accruals, deferred income and other liabilities	6,073	5,664	57	81	103	110	211	–	6,226
Total	45,405	22,237	2,854	2,007	1,287	1,298	9,395	13,601	52,679

Investment contracts without DPF are mainly the Group's unit linked policyholder liabilities. Unit linked policyholders usually have the option to surrender, in part or in full, their contract at any time and as a result the contracts have been designated as payable within one year in the table. A large proportion of the unit linked 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. Such surrenders would be matched in practice, if necessary, by sales of underlying assets.

33 Risk management and sensitivity analysis continued

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.

33.6.2 Maturity analysis of derivatives

The following table shows the gross and net derivative positions together with the maturity profile of the contractual undiscounted cashflows:

As at 31 December 2022	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 undiscounted value £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)**

As at 31 December 2021	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 undiscounted value £m
Derivative assets	3,373	354	674	731	674	886	2,005	–	5,324
Derivative liabilities	2,689	611	652	641	657	538	1,313	–	4,412
Net derivative position	684	(257)	22	90	17	348	692	–	912

33.7 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 swaptions 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 derivative transactions are conducted under standardised ISDA (International Swaps and Derivatives Association Inc) master agreements and CSA (Credit Support Annexes). 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 EMIR (European Market Infrastructure Regulation).

The total fair value balances of derivative assets and liabilities are shown in Note 19.

There are hedging arrangements in place for the with-profits liabilities. In addition to some product-specific arrangements, the main objective of the hedging arrangements is to broadly match a subset of the market-consistent liabilities and hence protect the capital position of the with-profits business against adverse market movements. The actual and required hedging positions are monitored at least monthly and rebalanced if required.

Under Article 11 of the UK European Market Infrastructure Regulation on derivatives, central counterparties and trade repositories (EMIR) and the Technical Standards onshoring 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 counterparty pairings meet the criteria to be eligible for intra-group exemptions to the margin requirements:

33 Risk management and sensitivity analysis continued

Counterparty	Legal Entity Identifier	Relationship between parties	Type of exemption	As at 31 December 2022 Aggregate notional of OTC derivatives contract £m	As at 31 December 2021 Aggregate notional of OTC derivatives contract £m
Prudential Lifetime Mortgages Limited	5493001GSK4HF84IOB02	M&G plc is the ultimate Parent Company for both parties	Full	**37**	37
M&G FA Limited	213800TFNC2ZYHSGTN11	M&G plc is the ultimate Parent Company for both parties	Full	**255**	204

33.7.1 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 2022 was an unrealised gain of £121m (2021: unrealised loss of £227m) and a realised loss of £119m (2021: realised loss of £81m).

PAC's shareholder fund has also 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 resulted in a £8m unrealised loss for the year ended 31 December 2022 (2021: unrealised loss of £36m).

33.7.2 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 2022, these instruments resulted in an unrealised loss of £803m (2021: unrealised loss of £86m) and a realised loss of £186m (2021: realised loss of £17m).

34 Contingencies and related obligations

34.1 Litigation, tax and regulatory matters

In addition to the matters set out in Note 29 regarding regulatory provisions in relation to annuity sales practices, and in Note 9.3 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.

34.2 Guarantees

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

M&G plc 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.

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.

M&G Group Regulated Entity Holding Company Limited is a 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.

34.3 Support for the With-Profits Fund by shareholders

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

34 Contingencies and related obligations continued

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 impact is included in the unallocated surplus of the with-profits fund with changes in value recognised in movement in unallocated surplus of the with-profits fund in the consolidated income statement.
- Part of the acquisition costs incurred in the early years of M&G Wealth Advice Limited (formerly Prudential Financial Planning Ltd) 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).
- 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 5 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 impact is included in the unallocated surplus of the with-profits fund with changes in value recognised in movement in unallocated surplus of the with-profits fund in the consolidated income statement.

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

34.3.1 Pension mis-selling review

The Pensions mis-selling review covers clients 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. Currently a provision amounting to £226m (2021: £296m) as at 31 December 2022 is being held in relation to this within insurance contract liabilities. During the initial review, some clients were issued with guarantees that redress will be calculated on retirement or transfer of their policies. The provision continues to cover these clients.

Whilst PAC believed it met the requirements of the FSA (the UK insurance regulator at that time) to issue offers of redress to all impacted clients by 30 June 2002, there is a population of clients who, whilst an attempt was made at the time to invite them to participate in the review, may not have received their invitation. These clients have been re-engaged, to ensure they have the opportunity to take part in the review. The provision also covers this population.

The key assumptions underlying the provisions are:

- average cost of redress per client.
- proportion of provision (reserve rate) held for soft close cases (where all reasonable steps have been taken to contact the client but the client has not engaged with the review).

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

		As at 31 December	
Assumption	Change in assumption	2022 £m	2021 £m
Average cost of redress	increase/decrease by 10%	**+/- 10**	+/- 10
Reserve rate for soft closed cases	increase/decrease by 10%	**+/- 30**	+/- 30

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

34.3.2 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 26.1 for further details on these options and guarantees.

35 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 28.

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 2022 were £805m (2021: £813m). 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 2022, the Group had undrawn commitments of £4,027m to third parties (2021: £3,246m) of which £2,566m (2021: £1,676m) 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.

36 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.

36.1 Transactions with the Group's joint ventures and associates

The Group received dividends and interest of £91m for the year ended 31 December 2022 (2021: £21m) 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 £88m as at 31 December 2022 (2021: £105m) and balances due to joint ventures or associates accounted for using the equity method of £nil as at 31 December 2022 (2021: £nil).

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

36.2 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:

For the year ended 31 December	2022 £m	2021 £m
Salaries and short-term benefits	**11.4**	12.2
Post-employment benefits	**0.5**	0.6
Share-based payments	**4.8**	7.2
Total	**16.7**	20.0

Information concerning individual Directors' emoluments, interests and transactions are provided in the single figure tables in the Annual Report on Remuneration on pages 141 and 145.

37 Capital management

37.1 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 2022 estimated and unaudited Group Solvency II own funds are £11.8bn (2021: £15.3bn).

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.

37.2 Group capital position

37.2.1 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 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 2022 and the position as at 31 December 2021 is shown below:

37 Capital management continued

As at 31 December	2022 £bn	2021 £bn
Solvency II eligible own funds	**11.8**	15.3
Solvency II SCR	**(7.2)**	(9.1)
Solvency II surplus	**4.6**	6.2
Solvency II coverage ratio[i]	**164%**	168%

i Solvency II coverage ratio has been calculated using unrounded figures. On a regulatory approved transition measures on technical provisions basis, the surplus is £4.8bn (2021: £6.2bn) and the solvency coverage ratio is 168% (2021: 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 transitional measures do not align to the latest approved regulatory position and therefore the estimated and unaudited Solvency II capital position differs 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 2021, the recalculation was approved for the reporting date and the positions were aligned.

37.2.2 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 1.4.5 of Supplementary Financial 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 as at 31 December 2022 and the position as at 31 December 2021 is shown below.

As at 31 December	2022 £bn	2021 £bn
Shareholder Solvency II eligible own funds	**9.3**	11.4
Shareholder Solvency II SCR	**(4.7)**	(5.2)
Solvency II surplus	**4.6**	6.2
Shareholder Solvency II coverage ratio[i]	**199%**	218%

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

37.3 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.

38 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:

38.1 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 of service 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 of service. 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 of service. 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 are subject to a service condition and may be subject to performance conditions. These awards may be retention awards, new joiner awards and promotion related awards. The last of these awards will vest 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 are based on M&G plc as opposed to Prudential plc performance.

In accordance with IFRS 2, the replacement awards were accounted for as a modification of the previous scheme and the expense in relation to the scheme has continued to be recorded over the remaining vesting period.

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 of service, 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 capital generation 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.

38 Share-based payments continued

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): free shares	In addition, to celebrate the demerger, all eligible employees were provided with 920 M&G plc shares with a value of £2,000 at the date of grant subject to a two-year service condition. The awards fully vested during 2021 for employees who met the relevant vesting conditions.

All approved schemes are accounted for as equity-settled as the awards are settled in M&G plc shares.

38.2 Outstanding options and awards

Movements in outstanding options and awards under the Group's share-based compensation are as follows:

	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 immediately exercisable at 31 December	**99,162**	**96,498**

	2021	
	Outstanding options under SAYE schemes	Awards outstanding under incentive plans
Outstanding as at 1 January	23,673,199	77,011,381
Granted	3,147,134	24,749,795
Exercised	(480,465)	(13,589,785)
Forfeited/Expired	(3,040,469)	(5,279,011)
Outstanding at 31 December	23,299,399	82,892,380
Options immediately exercisable at 31 December	137,047	21,831

The following tables provide a summary of the range of exercise prices for the SAYE options. The awards under the other schemes do not have an exercise price:

	2022			
	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (£)	Number exercisable
Between £1 and £2	**23,265,327**	**1.63**	**1.45**	**99,162**

	2021			
	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (£)	Number exercisable
Between £1 and £2	23,299,399	2.33	1.43	137,047

38.3 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, except for the following:

- Awards with market performance conditions based on Total Shareholder Returns ("TSR awards"): these include the LTIP TSR awards granted in 2019 and certain PSP awards granted from 2020 onwards;
- SAYE options.

The determination of the fair value of these awards requires the use of various assumptions which are disclosed below:

38 Share-based payments continued

	Awards granted in 2022		Awards granted in 2021	
	PSP TSR award	SAYE options	PSP TSR award	SAYE options
Dividend yield (%)	**n/a**	**11.37**	n/a	9.08
Expected pay-off (%)	**100.00**	**n/a**	41.67	n/a
Expected volatility (%)	**n/a**	**48.51**	n/a	30.17
Risk-free interest rate (%)	**n/a**	**4.37**	n/a	0.88
Expected option life (years)	**n/a**	**3.45**	n/a	3.66
Weighted average exercise price (£)	**n/a**	**1.61**	n/a	1.64
Weighted average share price at grant date (£)	**2.17**	**1.67**	2.09	2.04
Weighted average fair value at grant date (£)	**2.17**	**0.33**	1.11	0.30

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.

38.4 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 2022 was £34m (2021: £40m). The Group has no outstanding liabilities at the year end relating to awards which are settled in cash.

39 Post balance sheet events

On 3 August 2022, M&G Wealth Advice Limited, a wholly owned subsidiary of the Group, agreed to acquire a 49.9% holding in My Continuum Financial Limited (MCFL). MCFL is the holding company of Continuum (Financial Services) LLP (CFSL) and My Continuum Wealth (MCW). CFSL is a regulated entity engaged in providing wealth management services to retail clients through a network of independent financial advisors whereas MCW provides in-house portfolio management services through provision of model portfolios.

The transaction required regulatory approval, which was granted on 3 February 2023, and acquisition of the initial stake completed on 8 March 2023 and from this date the investment was recognised as an investment in associate accounted for under the equity method on the consolidated statement of financial position.

The agreement provides the Group the call option and the sellers the put option to allow acquisition of the remaining holding in MCFL over 2 years from the completion date.

In addition, as referenced in Note 2.2.2, the Group retained call options and the seller retained put options over the remaining shareholding in responsAbility that the Group did not purchase at the acquisition date. The Group has subsequently acquired the remaining shares on 21 February 2023.

40 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 2022 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) or equivalent subdivision of open ended collective investment vehicle.

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	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK

40 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%	1209 Orange Street, Wilmington, DE 19801, USA
ANRP II (AIV VI FC), L.P.	LPI	43%	Cayman Corporate Centre, 27 Hospital Road, George Town, KY 9008, Cayman Islands
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%	180 Dundas Street West, Toronto, M5G 1Z8, Canada
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	50%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Centaurus Retail LLP	LPI	50%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Centre Capital Non-Qualified Investors IV AIV-ELS, L.P.	LPI	88%	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE 19808, USA
Centre Capital Non-Qualified Investors IV, L.P.	LPI	63%	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE 19808, USA
Centre Capital Non-Qualified Investors V AIV-ELS LP	LPI	58%	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE 19808, USA
Centre Capital Non-Qualified Investors V LP	LPI	61%	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE 19808, USA
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%	30 Market Street, Huddersfield, West Yorkshire, England, HD1 2HG, UK
Cribbs Causeway JV Limited	OS	50%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Cribbs Causeway Merchants Association Limited	LBG	20%	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%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Digital Infrastructure Investment Partners GP1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, 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%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Digital Infrastructure Investment Partners SLP GP2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Eastspring Investments – Asian Bond Fund	U	48%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments – Asian High Yield Bond Fund	U	24%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments – Asian Local Bond Fund	U	95%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments – Asian Total Return Bond Fund	U	99%	26, Boulevard Royal, L-2449, Luxembourg
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

40 Related undertakings continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
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.a.r.l company	OS	45%	Via Alessandro Manzoni 38, Milan, 20121, Italy
Elle S.r.l. (formerly known as MCF S.r.l.)	OS	45%	Via Montenapoleone 29 CAP, 20121, Milan, 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
Falan GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Fashion Square ECO LP (In liquidation)	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	66%	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
Foudry 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%	10 Fenchurch Avenue, London, EC3M 5AG, 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
Greenpark (Reading) General Partner Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
GTA W21 GP	OS	50%	22 Adelaide Street West, Suite 2600, Toronto, Ontario, M5H 4E3, Canada
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
ICP (Finch) GP 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
ICP (Finch) GP 2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
ICP (Finch) GP LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, 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

40 Related undertakings continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
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 (TLSB) SLP LP	LPI	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
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%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Greenfield Partners I LP	LPI	22%	10 Fenchurch Avenue, London, EC3M 5AG, 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

40 Related undertakings continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
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%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Greenfield Partners II Subholdings (Sterling) GP LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, 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%	10 Fenchurch Avenue, London, EC3M 5AG, 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%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Partners III Subholdings (Sterling) GP LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, 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 LP	LPI	33%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Sisu GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital SLP II LP	LPI	40%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital SLP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Innisfree M&G PPP LLP	LPI	35%	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
Kiskadee Latitude Fund Limited	OS	95%	c/o Horseshoe Fund Services Ltd., Wessex House, 3rd Floor, 45 Reid Street, Hamilton, HM 12, Bermuda
LB Professional Investors Private Real Estate Fund No. 10	U	23%	20th floor, 136, Sejong-daero, Jung-gu, Seoul, Republic of Korea
Leadenhall Unit Trust	U	100%	IFC 5, St Helier, JE1 1ST, Jersey
LF Prudential Risk Managed Active 2	U	22%	6th Floor, 65, Gresham Street, London EC2V 7NQ, UK
LF Prudential Risk Managed Active 3	U	23%	6th Floor, 65, Gresham Street, London EC2V 7NQ, UK
LF Prudential Risk Managed Active 4	U	31%	6th Floor, 65, Gresham Street, London EC2V 7NQ, UK
LF Prudential Risk Managed Active 5	U	30%	6th Floor, 65, Gresham Street, London EC2V 7NQ, UK
LF Prudential Risk Managed Passive Fund 1	U	41%	6th Floor, 65, Gresham Street, London EC2V 7NQ, UK
Lion Credit Opportunity Fund Public Limited Company – Credit Opportunity Fund XV	U	100%	5 George's Dock, IFSC, Dublin 1, Ireland, D01 X8N7
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

40 Related undertakings continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
London Green Investments II SLP2 GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
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
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	97%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G (ACS) China Fund	U	97%	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	98%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G (ACS) UK Listed Equity Fund	U	97%	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	U	100%	16, Boulevard Royal, L-2449, Luxembourg
M&G (Lux) Investment Funds 1 – M&G Lux Emerging Markets Bond Fund	U	60%	16, Boulevard Royal, L-2449, Luxembourg
M&G (Lux) Managed Cautious (Euro) Fund	U	100%	16, Boulevard Royal, L-2449, Luxembourg
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 Sarl	OS	100%	16, Boulevard Royal, L-2449, Luxembourg
M&G (Lux) Sterling Liquidity Fund	U	100%	16, Boulevard Royal, L-2449, Luxembourg
M&G (Lux) Sustainable Optimal Income Bond Fund	U	98%	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 Sarl	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 Alternatives, SCSp – RAIF – 2020 Asian PE Fund	LPI	100%	8, rue Lou Hemmer, L-1748, Senningerberg, Luxembourg
M&G Alternatives, SCSp – RAIF – 2020 European PE Fund	LPI	100%	8, rue Lou Hemmer, L-1748, Senningerberg, Luxembourg

40 Related undertakings continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G Alternatives, SCSp – RAIF – 2020 PE Co-investment Fund	LPI	100%	8, rue Lou Hemmer, L-1748, Senningerberg, Luxembourg
M&G Alternatives, SCSp – RAIF – 2021 North American Fund	LPI	100%	8, rue Lou Hemmer, L-1748, Senningerberg, Luxembourg
M&G Alternatives, SCSp – RAIF – 2021 PE Impact Fund	LPI	100%	8, rue Lou Hemmer, L-1748, Senningerberg, Luxembourg
M&G Alternatives, SCSp – RAIF – 2022 Global PE Fund	LPI	100%	8, rue Lou Hemmer, L-1748, Senningerberg, Luxembourg
M&G Alternatives, SCSp – RAIF – 2022 PE Co-Investment Fund	LPI	100%	8, rue Lou Hemmer, L-1748, Senningerberg, Luxembourg
M&G Asia Property Fund	U	45%	16, Boulevard Royal, L-2449, Luxembourg
M&G BlackRock Canada Equity Fund (formerly known as M&G ACS Canada Index Fund)	U	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G BlackRock UK 200 Equity Fund (formerly known as M&G ACS UK 200 Index 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 Corporate Services Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Credit Income Investment Trust plc	OS	22%	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	26%	80, route d'Esch, L-1470, Luxembourg
M&G European Living Property Fund SCSP, SICAV-RAIF	LPI	100%	16, Boulevard Royal, L-2449, Luxembourg
M&G European Property Fund SICAV-FIS	U	30%	16, Boulevard Royal, L-2449, Luxembourg
M&G FA Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Feeder of Property Portfolio	U	49%	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	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Fitzrovia Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Fitzrovia Limited Partnership	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Fitzrovia Nominee 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Fitzrovia Nominee 2 Limited	OS	100%	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%	16, Boulevard Royal, L-2449, Luxembourg
M&G Funds (1) Blackrock Asia Pacific (ex Japan) Equity Fund	U	100%	16, Boulevard Royal, L-2449, Luxembourg
M&G Funds (1) Blackrock Emerging Markets Equity Fund	U	100%	16, Boulevard Royal, L-2449, Luxembourg
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%	16, Boulevard Royal, L-2449, Luxembourg
M&G Funds (1) Lazard Global Emerging Markets Equity Fund	U	99%	16, Boulevard Royal, L-2449, Luxembourg

40 Related undertakings continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G Funds (1) MFS Global Emerging Markets Equity Fund	U	99%	16, Boulevard Royal, L-2449, Luxembourg
M&G Funds (1) Sterling Investment Grade Corporate Bond Fund	U	77%	16, Boulevard Royal, L-2449, Luxembourg
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%	16, Boulevard Royal, L-2449, Luxembourg
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%	Prudential House, 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%	Talstrasse 66, 8001 Zurich, Switzerland
M&G Investment Funds (10) – M&G Better Health Solutions Fund	U	94%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (10) – M&G Climate Solutions Fund	U	55%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (10) – M&G Global High Yield ESG Bond Fund	U	32%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (10) – M&G Positive Impact Fund	U	29%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (2) – M&G Gilt & Fixed Interest Income Fund	U	67%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (2) – M&G Global High Yield Bond	U	50%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (3) – M&G Dividend Fund	U	51%	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 Fund	U	42%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (7) – M&G Global Convertibles Fund	U	74%	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 Ltd	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. Ltd.	OS	100%	138 Market Street, CapitaGreen #35-01, 048946, Singapore
M&G Investments (USA) Inc	OS	100%	251 Little Falls Drive, Wilmington, DE 19801, USA
M&G Investments Japan Co., Ltd.	OS	100%	3-1, Toranomon 4-chome, Minato-ku, Tokyo, 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 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

40 Related undertakings continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G PFI Carry Partnership 2016 LP	LPI	25%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G PFI Partnership 2018 LP	LPI	100%	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	88%	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. Ltd.	OS	67%	138 Market Street, CapitaGreen #35-01, 048946, Singapore
M&G Real Estate Asia PTE. Ltd.	OS	67%	138 Market Street, CapitaGreen #35-01, 048946, Singapore
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
M&G Real Estate Japan Co., Ltd.	OS	100%	9/F Shiroyama Trust Tower, 4-3-1 Toranomon, Minato-ku, Tokyo 105-6009, Japan
M&G Real Estate Korea Co., Ltd.	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 RED II Employee Feeder GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED II GP Limited	OS	100%	De Catapan House, Grange Road, St Peter Port, GY1 2QG, 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	OS	100%	De Catapan House, Grange Road, St Peter Port, GY1 2QG, 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 Securities Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G SFF (CIP GP) Sárl	OS	100%	Heienhaff 5, 1736 Senningerberg, Luxembourg
M&G SFF (GP) Sárl	OS	100%	Heienhaff 5, 1736 Senningerberg, Luxembourg
M&G Shared Ownership GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Shared Ownership LP	LPI	46%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G SIF Management Company (Ireland) Limited	OS	100%	5 George's Dock, IFSC, Dublin 1, Ireland
M&G Specialty Finance Fund 2 GBP SCSp	LPI	80%	5, Heienhaff, L-1736, Senningerberg, Luxembourg
M&G Sustainable Loan Fund Limited	OS	88%	5 George's Dock, IFSC, Dublin 1, Ireland
M&G Trustee Company Limited (formerly known as Prudential Trustee Company Limited)	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK

40 Related undertakings continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G UK Companies Financing Fund II LP	LPI	48%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UK Mortgage Income Fund	U	67%	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	26%	34-38, avenue de la Liberté, L-1931, Luxembourg
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	100%	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 (formerly known as TCF Fund Managers LLP)	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Wealth Solutions Limited (formerly known as M&G Wealth Investments 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) Ltd	OS	100%	Protea Place, 40 Dreyer Street, Claremont, 7708, South Africa
MandG Investments (Namibia) (Pty) Ltd	OS	100%	Unit 3, 2nd Floor, Ausspann Plaza, Dr Agostinho Neto Road, Private Bag 12012, Ausspannplatz, Windhoek, Namibia
MandG Investments Life South Africa (RF) Ltd	OS	100%	Protea Place, 40 Dreyer Street, Claremont, 7708, South Africa
MandG Investments Southern Africa (Pty) Ltd	OS	50%	Protea Place, 40 Dreyer Street, Claremont, 7708, South Africa
MandG Investments Unit Trusts (Namibia) Ltd	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) Ltd	OS	100%	Protea Place, 40 Dreyer Street, Claremont, 7708, South Africa
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
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%	Barrat House, Cartwright Way, Bardon Hill, Coalville, LE67 1UF, UK
Pacus (UK) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
PAP Trustee Pty Limited	OS	100%	Level 17 Tower One, International Towers, Barangaroo, Sydney, NSW 2000, 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
PGF Management Company (Ireland) Limited (in liquidation)	OS	50%	5 George's Dock, Dublin 1, D01 X8N7, Ireland

40 Related undertakings continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
PPM America Private Equity Fund III LP	LPI	50%	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM America Private Equity Fund IV LP	LPI	50%	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM America Private Equity Fund V LP	LPI	50%	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM America Private Equity Fund VI LP	LPI	40%	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM America Private Equity Fund VII LP	LPI	46%	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
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	50%	Bow Bells House, 1 Bread Street, London, EC4M 9HH, UK
Pru Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudence Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Capital (Singapore) Pte. Ltd. (in liquidation)	OS	100%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre, 018983, Singapore
Prudential Corporate Pensions Trustee Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Credit Opportunities 1 S.a.r.l.	OS	100%	1, Rue Hildegard von Bingen, L-1282, Luxembourg
Prudential Credit Opportunities 2 S.a.r.l	OS	100%	1, Rue Hildegard von Bingen, L-1282, Luxembourg
Prudential Credit Opportunities GP S.a.r.l	OS	100%	1, Rue Hildegard von Bingen, L-1282, Luxembourg
Prudential Credit Opportunities SCSp	LPI	100%	1, Rue Hildegard von Bingen, L-1282, Luxembourg
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%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Greenfield GP1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Greenfield GP2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Greenfield LP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Holborn Life Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential International Assurance plc	OS	100%	Montague House, Adelaide Road, Dublin 2, D02 K039, Ireland
Prudential International Management Services Limited	OS	100%	Montague House, Adelaide Road, Dublin 2, D02 K039, Ireland
Prudential Investment (Luxembourg) 2 S.à.r.l.	OS	100%	16, Boulevard Royal, L-2449, Luxembourg
Prudential Lifetime Mortgages Limited	OS	100%	5 Central Way, Kildean Business Park, Stirling, FK8 1FT, UK
Prudential Loan Investments 1 S.a.r.l	OS	100%	1, Rue Hildegard von Bingen, L-1282, Luxembourg
Prudential Loan Investments GP S.a.r.l	OS	100%	1, Rue Hildegard von Bingen, L-1282, 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

40 Related undertakings 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
Rads Gamma Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Rads Omega 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 Management Company S.A. (in liquidation)	OS	80%	c/o KPMG; 39, Avenue John F. Kennedy, L-1855, Luxembourg
responsAbility Sustainable Food – Asia II (GP), S.à r.l.	OS	100%	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 Africa Ltd	OS	100%	Merchant Square, Block D, 5th Floor, Riverside Drive, Westlands, P.O. 29300623 Nairobi, Kenya
responsAbility Agriculture (GP) Sàrl	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 Sàrl	OS	50%	5, Rue Jean Monnet, L-2180, Luxembourg
responsAbility France SAS	OS	100%	5 Rue du Helder, Paris, Département de Paris, IDF, 75009, France
responsAbility Georgia LLC	OS	100%	4 Tamar Chovelidze Street, T'bilisi, Tbilisi, 0108, Georgia
responsAbility India Business Advisors Pvt. Ltd	OS	100%	31 Green Acre, Union Park Road Number 5, Mumbai, Mumbai Suburban, MH, 400052, India
responsAbility Investments AG	OS	93%	Zollstrasse 17, Zürich, ZH, 8005, Switzerland
responsAbility Thailand Ltd	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	61%	30 Market Street, Huddersfield, West Yorkshire, England, HD1 2HG, UK
Sandringham Financial Partners Limited	PS	39%	30 Market Street, Huddersfield, West Yorkshire, England, HD1 2HG, UK
Schoolhill Sarl	OS	100%	20, rue de la Poste, Luxembourg

40 Related undertakings continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
ScotAm Pension Trustees Limited	OS	100%	5 Central Way, Kildean Business Park, Stirling, FK8 1FT, UK
Scottish Amicable Life Assurance Society	No share capital	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, St Peter Port, GY1 2HL, Guernsey
Silverfleet Capital 2009 LP	LPI	100%	1 Royal Plaza, St Peter Port, GY1 2HL, Guernsey
Silverfleet Capital 2011/12 LP	LPI	100%	1 Royal Plaza, 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	36%	559 Pacific Avenue, San Francisco, CA 94133, USA
Sky I Intermediate LP	LPI	28%	Maples Corporate Services Limited, Ugland House, P.O. Box 309, Grand Cayman, KY1-1104, Cayman Islands
Smithfield Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
SMLLC	LPI	100%	1209 Orange Street, Wilmington, DE 19801, 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%	5 George's Dock, IFSC, Dublin 1, 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
Sustainable Multi Asset Balanced Fund	U	31%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Sustainable Multi Asset Cautious Fund	U	49%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Sustainable Multi Asset Growth Fund	U	67%	10 Fenchurch Avenue, London, EC3M 5AG, UK
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%	Liberte House, 19-23 La Motte Street, St Helier, JE2 4SY, Jersey
The Two Rivers Trust	U	50%	Liberte House, 19-23 La Motte Street, St Helier, JE2 4SY, Jersey
Three Snowhill Birmingham S.a.r.l.	OS	100%	5, Heienhaff, L-1736, Senningerberg, Luxembourg
Two Rivers LP	LPI	50%	Bow Bells House, 1 Bread Street, London, EC4M 9HH, UK
Two Snowhill Birmingham S.a.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

40 Related undertakings continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
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
WFH Investments LLC	LPI	23%	2711 Centerville Road, Suite 400, Wilmington, DE 19808, USA
Wrap IFA Services Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Wynnefield Private Equity Partners II, L.P.	LPI	99%	1209 Orange Street, Wilmington, DE 19801, USA

Company statement of financial position

As at 31 December	Notes	2022 £m	2021 £m
Assets			
Investments in subsidiaries	A	**10,536**	10,524
Deferred tax	B	**141**	90
Loans	C	**793**	1,651
Current tax recoverable	B	**8**	–
Accrued investment income and other debtors	D	**37**	22
Cash and cash equivalents	E	**23**	58
Total assets		**11,538**	12,345
Equity			
Share capital	F	**119**	130
Share premium	F	**370**	370
Capital redemption reserve	F	**11**	–
Treasury shares	G	**(47)**	–
Shares held by employee benefit trust	G	**(70)**	(93)
Equity-settled share-based payment reserve		**91**	80
Retained earnings			
Brought forward retained earnings		**8,013**	7,247
Profit for the year		**159**	1,201
Other movements in retained earnings		**(920)**	(435)
Total retained earnings		**7,252**	8,013
Total equity		**7,726**	8,500
Liabilities			
Subordinated liabilities and other borrowings	H	**3,729**	3,706
Current tax liabilities	B	**–**	5
Provisions	I	**2**	20
Accruals, deferred income and other liabilities	J	**81**	114
Total liabilities		**3,812**	3,845
Total equity and liabilities		**11,538**	12,345

The Notes on pages 314 to 317 are an integral part of these financial statements.

The financial statements on pages 309 to 317 were approved by the Board and signed on its behalf by the following Directors on 9 March 2023:

Andrea Rossi Group Chief Executive Officer

Kathryn McLeland Chief Financial Officer

Company statement of changes in equity

	Share capital £m	Share premium £m	Capital redemption reserve £m	Treasury shares £m	Shares held by employee benefit trust £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**
Transactions with equity holders:								
– Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**(465)**	**(465)**
Shares purchased in buy-back	**(11)**	**–**	**11**	**(47)**	**–**	**–**	**(456)**	**(503)**
Vested employee share based payments	**–**	**–**	**–**	**–**	**–**	**(23)**	**23**	**–**
Shares distributed by employee trusts	**–**	**–**	**–**	**–**	**23**	**–**	**(22)**	**1**
Expense recognised in respect of share-based payments	**–**	**–**	**–**	**–**	**–**	**34**	**–**	**34**
Tax effect of items recognised directly in equity	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Net (decrease)/increase in equity	**(11)**	**–**	**11**	**(47)**	**23**	**11**	**(761)**	**(774)**
As at 31 December 2022	**119**	**370**	**11**	**(47)**	**(70)**	**91**	**7,252**	**7,726**

	Share capital £m	Share premium £m	Shares held by employee benefit trust £m	Equity-settled share-based payment reserve £m	Retained earnings £m	Total equity £m
As at 1 January 2021	130	370	(117)	73	7,247	7,703
Profit for the year	–	–	–	–	1,202	1,202
Total comprehensive income for the year	–	–	–	–	1,202	1,202
Transactions with equity holders:						
– Dividends paid	–	–	–	–	(466)	(466)
Vested employee share based payments	–	–	–	(33)	33	–
Shares distributed by employee trusts	–	–	24	–	(24)	–
Expense recognised in respect of share-based payments	–	–	–	40	–	40
Tax effect of items recognised directly in equity	–	–	–	–	21	21
Net increase in equity	–	–	24	7	766	797
As at 31 December 2021	130	370	(93)	80	8,013	8,500

The Notes on pages 314 to 317 are an integral part of these financial statements.

Company accounting policies

(a) Basis of preparation

These separate financial statements for the year ended 31 December 2022 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 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 has met the required eligibility criteria for temporary exemption and the adoption of IFRS 9 has been 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 auditor's remuneration for audit and other services is disclosed in Note 8 of the Group financial statements. At 31 December 2022 the Company had three (2021: two) employees.

(b) Key judgements and critical accounting estimates

A full list of the Company's significant 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 significant 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

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.

(viii) Dividends

Dividends are recognised when the obligation becomes certain, i.e. 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

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. 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	2022 £m	2021 £m
Cost at 1 January	**11,747**	11,717
Capital contribution into subsidiaries	**12**	30
Cost at 31 December	**11,759**	11,747
Impairment at 1 January	**(1,223)**	(1,223)
Impairment of subsidiaries	**–**	–
Impairment at 31 December	**(1,223)**	(1,223)
Investment in subsidiaries at 31 December	**10,536**	10,524

(i) Capital contributions

On 27 September 2022 the Company increased its investment in Prudential Financial Services Limited through the purchase of 10,500,000 ordinary shares for cash consideration of £11m. The additional £1m relates to capital contributions arising from share-based payments to employees of subsidiaries.

(ii) Prior year capital contributions

On 20 December 2021 the Company increased its investment in M&G Corporate Holdings Limited through the purchase of 25,000,000 ordinary shares for cash consideration of £25m. The additional £5m relates to capital contributions arising from share-based payments to employees of subsidiaries.

(iii) Direct subsidiaries

The direct subsidiaries of the Company as at 31 December 2022 are listed below:

Company name	Country of incorporation or registration	Nature of business	% held
M&G Group Regulated Entity Holding Company Limited	United Kingdom	Holding company	100%
M&G Corporate Holdings Limited	United Kingdom	Holding company	100%
Prudential Financial Services Limited	United Kingdom	Holding company	100%
Prudential Property Services Limited	United Kingdom	Service company	100%
Prudential Capital Holding Company Limited	United Kingdom	Holding company	100%
Prudential Capital Public Limited Company	United Kingdom	Service company	100%

Details of the Company's related undertakings are given in Note 40 of the Group financial statements.

(iv) Impairment

No impairment charge was recognised in relation to the Company's investment in subsidiaries during the year ended 31 December 2022 (2021: none).

M&G Group Regulated Entity Holding Company Limited is the main subsidiary of the Company and acts as the main holding entity for all of the Group's regulated businesses. The continued adverse impacts of market volatility on the global economy and its resulting implications on the Company's market capitalisation and potential future business performance were considered an impairment indicator by management. Therefore, 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 2022, the M&G Group Limited and The Prudential Assurance Company Limited (PAC) collectively represented 99% of the carrying value of M&G Group Regulated Entity Holding Company Limited. The values in use of these material indirect subsidiaries were determined based on discounted cashflows and standard growth models based on management forecasts.

A. Investment in subsidiaries continued

The value in use calculation 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 M&G Group Limited, the value in use was calculated using a standard growth model, using a discount rate of 11%, based on a cost of equity 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 M&G Group Limited reducing by £293m. This would not result in any impairment being recorded in respect of M&G Group Regulated Entity Holding Company Limited.
- In respect of The Prudential Assurance Company Limited, the value in use was calculated using a dividend discount model, using a discount rate of 12%, based on a cost of equity approach, and a long term growth rate of 2%. A simultaneous increase of 50bps in the discount rate and 50bps decrease in the growth rate would result in the carrying value of The Prudential Assurance Company Limited reducing by £570m. This would not result in any impairment being recorded in respect of M&G Group Regulated Entity Holding Company Limited.

Based on this assessment, no impairment charge was recorded, as at 31 December 2022 (2021: none), in respect of M&G Group Regulated Entity Holding Company Limited.

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:

	2022 £m	2021 £m
As at 1 January	**90**	73
Income statement	**51**	(4)
Equity and other comprehensive income	**–**	21
As at 31 December	**141**	90

Of the £141m (2021: £90m) deferred tax asset at 31 December 2022, £83m (2021: £88m) relates to short-term timing differences arising on the subordinated notes and £55m (2021: £nil) on tax losses carried forward. The remaining £3m (2021: £2m) relates to the deferred tax asset on share-based compensation. The prior year movement in reserves predominantly relates to the revaluation of the deferred tax asset on the subordinated notes as a result of the increase in the UK corporation tax rate, with effect from 1 April 2023, from 19% to 25%. The income statement movements primarily relate 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.

B. Tax continued

(ii) Current tax

As at 31 December	2022 £m	2021 £m
Net corporation tax liability at 1 January	**(5)**	(10)
Income statement	**20**	63
Corporation tax paid	**(7)**	(58)
	8	(5)
Corporation tax assets (UK)	**8**	–
Corporation tax liabilities (UK)	**–**	(5)
Net corporation tax asset / (liability) as at 31 December	**8**	(5)

As at 31 December	2022 £m	2021 £m
Corporation tax receivable / (payable) within 12 months	**8**	(5)
As at 31 December	**8**	(5)

C. Loans

As at 31 December 2022 the Company had provided loans to its subsidiary Prudential Capital plc of £793m (2021: £1,651m) which are repayable on demand. Accrued interest as at 31 December 2022 was £1m (2021: £nil) and is presented within accrued investment income and other debtors.

D. Accrued investment income and other debtors

As at 31 December	2022 £m	2021 £m
Amounts owed by Group undertakings	**36**	21
Other	**1**	1
Total accrued investment income and other debtors	**37**	22
Analysed as:		
No contractual maturity	**36**	22
Expected to be settled within one year	**1**	–
Total accrued investment income and other debtors	**37**	22

E. Cash and cash equivalents

As at 31 December	2022 £m	2021 £m
Cash	**23**	58
Total cash and cash equivalents	**23**	58

F. Share capital and share premium

Details of the Company's share capital and share premium are given in Note 22 of the Group financial statements, including the impacts from the share buy-back programme.

Details of the dividends paid on the ordinary shares by the Company are provided in Note 11 of the Group financial statements. Note 11 also includes information regarding the final dividend proposed by the Directors for the year ended 31 December 2022.

G. Shares held by employee benefit trusts and other treasury shares

Details of the Company's shares held by trust and other treasury shares are given in Note 23 of the Group financial statements.

H. Subordinated liabilities and other borrowings

Details of the Company's subordinated liabilities are given in Note 27.1 of the Group financial statements. Details of the Company's revolving credit facilities are given in Note 27.2 of the Group financial statements and in the Director's report.

I. Provisions

Provisions of £2m as at 31 December 2022 (2021: £20m) related to change in control costs arising from the demerger of the Group from the Prudential plc group in 2019, which were expected to be incurred within four years of the separation.

J. Accruals, deferred income and other liabilities

As at 31 December	2022 £m	2021 £m
Amounts owed to Group undertakings	**28**	58
Accrued interest on subordinated debt	**43**	42
Other	**10**	14
Total accruals, deferred income and other liabilities	**81**	114
Analysed as:		
No contractual maturity	**28**	58
Expected to be settled within one year	**45**	48
Expected to be settled after one year	**8**	8
Total accruals, deferred income and other liabilities	**81**	114

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 36 of the Group financial statements for further information.

There were no other related party transactions in the years ended 31 December 2022 and 31 December 2021 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 34 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 38 of the Group financial statements.

Supplementary financial information

1.1 Overview of the Group's key and alternate 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.

Key performance measure	Type	Definition
IFRS profit or loss after tax	KPM	IFRS profit or loss 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 before tax is the Group's non-GAAP alternative performance measure, which complements IFRS GAAP measures and is useful as it allows a deeper understanding of operating 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 IFRS profit before tax to determine Adjusted operating profit before tax. Adjustments are in respect of short-term fluctuations in investment returns, costs associated with fundamental Group-wide restructuring and transformation, profit/(loss) arising on corporate transactions, impairment and amortisation in respect of acquired intangible assets, and, when relevant, profit/(loss) before tax from discontinued operations. The adjusted operating profit methodology is described in Section 3.2, along with a reconciliation of adjusted operating profit before tax to IFRS profit after tax.
Adjusted operating income	APM	Adjusted operating income is a component part of the Group's key APM of adjusted operating profit before tax. For the Group's fee based business adjusted operating income represents asset management charges, transactional charges and annual management charges on unit-linked business. For the Group's business written in the With-Profits Fund, adjusted operating income includes the statutory transfer to shareholders gross of attributable shareholder tax. Derivative instruments are held to mitigate the risk to the shareholder of lower future shareholder transfers. For the Group's shareholder annuity products written by the Retail and Savings segment, adjusted operating income includes the net impact of movements in the value of policyholder liabilities and fair value of the assets backing these liabilities, the unwind of the credit risk premium, the actual income received in the year, such as coupon payments, redemption payments and rental income on surplus assets backing the shareholder annuity capital, less an allowance for expenses, the net effect of changes to the valuation rate of interest due to asset trading and portfolio rebalancing and the impact of changes in the long-term component of credit provisioning. Specifically excluded are the impact of short-term components of credit risk provisioning, the impact of credit risk experience variances over the period, and total fair value movement on surplus assets backing the shareholder annuity capital, that are not reflective of the longer-term performance of the business. Please see section 3.4 which includes a reconciliation of adjusted operating income to total IFRS revenue as presented in the Group's consolidated income statement.
Adjusted operating expenses	APM	Adjusted operating expenses is a component part of the Group's key APM of adjusted operating profit before tax. Included are operating costs for the business consisting of overheads, expenses required to meet regulatory requirements and regular business development/restructuring and other costs. Non-recurring or strategic costs associated with fundamental Group-wide merger, transformation, rebranding and other change in control costs are not included. Please see section 3.4 which includes a reconciliation of adjusted operating expenses to total IFRS expenses as presented in the Group's consolidated income statement.

1.1 Overview of the Group's key and alternate 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 includes 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. Please see section 1.3 of the supplementary financial information for further details on the Group's AUMA.
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 expected net outflows in our Heritage business, which is closed to new clients, as it runs-off. Net client flows includes flows on assets held on the Group's consolidated statement of financial position for our retail 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. Please see section 1.3 of the supplementary financial information section for further analysis on net client flows, excluding heritage.
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. The shareholder Solvency II coverage ratio is described in the "Solvency II capital position" section in 1.4.
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. Please see section 1.5 of the supplementary financial information for further details on underlying capital generation, including any applicable reconciliations.
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. Please see section 1.5 of the supplementary financial information for further details on operating 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 own funds exceed SCR under Solvency II. Total capital generation is the total change in Solvency II surplus capital before dividends and capital movements. Please see section 1.5 of the supplementary financial information for further details on total capital generation including the reconciliation to change in Solvency II surplus.

1.2 Adjusted operating profit before tax

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

For the year ended 31 December	Asset Management 2022 £m	Asset Management 2021 £m	Retail & Savings 2022 £m	Retail & Savings 2021 £m	Corporate centre 2022 £m	Corporate centre 2021 £m	Total 2022 £m	Total 2021 £m
Fee-based revenue	**1,051**	976	**295**	278	**–**	–	**1,346**	1,254
Annuity margin	**–**	–	**227**	369	**–**	–	**227**	369
With-profits shareholder transfer net of hedging and other gains/losses	**–**	–	**354**	268	**–**	–	**354**	268
Adjusted operating income	**1,051**	976	**876**	915	**–**	–	**1,927**	1,891
Adjusted operating expenses	**(763)**	(672)	**(295)**	(296)	**(107)**	(95)	**(1,165)**	(1,063)
Other shareholder (loss)/profit	**(5)**	17	**(9)**	41	**(200)**	(159)	**(214)**	(101)
Share of profit from joint ventures and associates[i]	**–**	6	**–**	–	**–**	–	**–**	6
Adjusted operating profit attributable to non-controlling interests	**(19)**	(12)	**–**	–	**–**	–	**(19)**	(12)
Adjusted operating profit/(loss) before tax	**264**	315	**572**	660	**(307)**	(254)	**529**	721

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

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

For the year ended 31 December 2022	Asset Management: Core Asset Management £m	Asset Management: Performance fees[i] and investment income £m	Retail and Savings: Wealth £m	Retail and Savings: Heritage £m	Retail and Savings: Other £m	Corporate Centre: Other £m
Fee-based revenue	**995**	**56**	**140**	**92**	**63**	**–**
Annuity margin	**–**	**–**	**–**	**227**	**–**	**–**
With-profits shareholder transfer net of hedging and other gains/losses	**–**	**–**	**128**	**226**	**–**	**–**
Adjusted operating income	**995**	**56**	**268**	**545**	**63**	**–**
Asset Management operating expenses	**(763)**	**–**	**–**	**–**	**–**	**–**
Other operating expenses	**–**	**–**	**(173)**	**(80)**	**(42)**	**(107)**
Adjusted operating expenses	**(763)**	**–**	**(173)**	**(80)**	**(42)**	**(107)**
Other shareholder (loss)/profit	**–**	**(5)**	**1**	**1**	**(11)**	**(200)**
Share of profit from joint ventures and associates	**–**	**–**	**–**	**–**	**–**	**–**
Adjusted operating profit attributable to non-controlling interests	**(14)**	**(5)**	**–**	**–**	**–**	**–**
Adjusted operating profit/(loss) before tax	**218**	**46**	**96**	**466**	**10**	**(307)**

i Includes carried interest.

1.2 Adjusted operating profit before tax continued

For the year ended 31 December 2021	Asset Management Core Asset Management £m	Asset Management Performance fees[i] and investment income £m	Retail and Savings Wealth £m	Retail and Savings Heritage £m	Retail and Savings Other £m	Corporate Centre Other £m
Fee-based revenue	953	23	144	76	58	–
Annuity margin	–	–	–	369	–	–
With-profits shareholder transfer net of hedging and other gains/losses	–	–	63	205	–	–
Adjusted operating income	953	23	207	650	58	–
Asset management operating expenses	(672)	–	–	–	–	–
Other operating expenses	–	–	(168)	(85)	(43)	(95)
Adjusted operating expenses	(672)	–	(168)	(85)	(43)	(95)
Other shareholder profit/(loss)	–	17	2	55	(16)	(159)
Share of profit from joint ventures and associates	6	–	–	–	–	–
Adjusted operating profit attributable to non-controlling interests	(10)	(2)	–	–	–	–
Adjusted operating profit/(loss) before tax	277	38	41	620	(1)	(254)

i Includes carried interest.

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

For the year ended 31 December	2022 £m	2021 £m
Return on excess assets and margin release	**163**	172
Asset trading and other optimisation	**35**	10
Longevity assumption changes	**193**	125
Mismatching losses[i]	**(122)**	(6)
Other assumption and model changes[ii]	**(19)**	10
Experience variances and model improvements	**(8)**	12
Other provisions and reserves	**(15)**	46
Annuity margin	**227**	369

i Mismatching losses of £122m for the year ended 31 December 2022 (2021: £6m) relates to short-term mismatches between the value of annuity liabilities and the long-term assets backing these liabilities due to the impact of market movements.

ii Other assumptions and model changes of £(19)m for the year ended 31 December 2022 (2021: £10m) include assumption changes other than those relating to longevity, including the impact of expense assumption changes and the impact of improvements to models.

1.2 (iii) Reconciliation of adjusted operating profit before tax to IFRS (loss)/profit after tax

For the year ended 31 December	2022 £m	2021 £m
Adjusted operating profit before tax	**529**	721
Short term fluctuations in investment returns	**(2,484)**	(537)
Profit on disposal of business and corporate transactions	**–**	35
Restructuring and other costs	**(147)**	(146)
Amortisation and impairment of intangible assets acquired in business combinations	**(35)**	(4)
IFRS profit before tax attributable to non-controlling interests	**19**	12
IFRS (loss)/profit before tax attributable to equity holders	**(2,118)**	81
Tax credit attributable to equity holders	**499**	11
IFRS (loss)/profit after tax attributable to equity holders	**(1,619)**	92

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

1.3 (i) Detailed AUMA and net client flows

	2022					
For the year ended 31 December	As at 1 January 2022 £bn	Gross inflows £bn	Gross outflows £bn	Net client flows £bn	Market/ Other movements £bn	As at 31 December 2022 £bn
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	**0.9**	**–**	**–**	**–**	**0.2**	**1.1**
Total Asset Management	**156.7**	**29.1**	**(29.3)**	**(0.2)**	**(2.3)**	**154.2**
Wealth	**84.2**	**8.0**	**(7.8)**	**0.2**	**(1.0)**	**83.4**
Of which PruFund	**52.4**	**5.4**	**(4.9)**	**0.5**	**(0.6)**	**52.3**
Heritage	**117.8**	**0.2**	**(6.2)**	**(6.0)**	**(17.7)**	**94.1**
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**
Other Retail and Savings	**9.1**	**0.9**	**(0.6)**	**0.3**	**(0.5)**	**8.9**
Of which PruFund	**6.0**	**0.7**	**(0.5)**	**0.2**	**(0.2)**	**6.0**
Total Retail and Savings	**211.1**	**9.1**	**(14.6)**	**(5.5)**	**(19.2)**	**186.4**
Corporate assets	**2.2**	**–**	**–**	**–**	**(0.8)**	**1.4**
Group Total[i]	**370.0**	**38.2**	**(43.9)**	**(5.7)**	**(22.3)**	**342.0**

i Included in total AUMA of £342.0 billion (2021: £370.0 billion) is £12.7 billion (2021: £7.9 billion) of assets under advice.

	2021					
For the year ended 31 December	As at 1 January 2021 £bn	Gross inflows £bn	Gross outflows £bn	Net client flows £bn	Market/ Other movements £bn	As at 31 December 2021 £bn
Institutional Asset Management	85.5	16.2	(10.4)	5.8	11.8	103.1
Wholesale Asset Management	58.1	14.9	(18.7)	(3.8)	(1.6)	52.7
Other	0.8	–	–	–	0.1	0.9
Total Asset Management	144.4	31.1	(29.1)	2.0	10.3	156.7
Wealth	79.5	7.1	(8.5)	(1.4)	6.1	84.2
Of which PruFund	50.0	3.8	(5.2)	(1.4)	3.8	52.4
Heritage	133.7	0.3	(7.2)	(6.9)	(9.0)	117.8
Of which Shareholder annuities	35.3	–	(1.8)	(1.8)	(11.3)	22.2
Of which traditional with-profits	84.3	0.3	(5.1)	(4.8)	1.9	81.4
Other Retail and Savings	8.4	0.6	(0.6)	–	0.7	9.1
Of which PruFund	5.5	0.4	(0.4)	–	0.5	6.0
Total Retail and Savings	221.6	8.0	(16.3)	(8.3)	(2.2)	211.1
Corporate assets	1.2	–	–	–	1.0	2.2
Group Total[i]	367.2	39.1	(45.4)	(6.3)	9.1	370.0

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

1.3 (ii) AUMA by asset class

	2022									
	On balance sheet AUMA[i]					External AUMA				Total
As at 31 December	With-profits £bn	Unit-linked £bn	Shareholder-backed annuities and other long-term business £bn	Corporate assets £bn	Total on balance sheet AUMA £bn	Wealth £bn	Wholesale £bn	Institutional £bn	Total external AUMA £bn	Total AUMA £bn
Investment property	9.1	–	0.9	–	10.0	–	0.8	16.0	16.8	26.8
Reinsurance 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

i On balance sheet AUMA does not include consolidated funds included in the segmented statement of financial position by business type in Note 33.1.

ii Derivatives assets are shown net of derivative liabilities.

iii Deposits are shown net of unsettled reverse repos.

iv Included in total AUMA of £342.0 billion (2021: £370.0 billion) is £12.7 billion (2021: £7.9 billion) of assets under advice.

	2021									
	On balance sheet AUMA[i]					External AUMA				Total
As t 31 December	With-profits £bn	Unit-linked £bn	Shareholder-backed annuities and other long-term business £bn	Corporate assets £bn	Total on balance sheet AUMA £bn	Wealth £bn	Wholesale £bn	Institutional £bn	Total external AUMA £bn	Total AUMA £bn
Investment property	9.4	0.1	1.1	–	10.6	–	0.6	14.6	15.2	25.8
Reinsurance assets	–	0.2	1.5	–	1.7	–	–	–	–	1.7
Equity securities and pooled investment funds	72.4	10.7	–	0.3	83.4	3.9	21.3	19.5	44.7	128.1
Loans	1.4	–	2.2	–	3.6	–	–	11.2	11.2	14.8
Debt securities	42.6	3.3	18.2	1.3	65.4	2.5	29.2	55.4	87.1	152.5
of which Corporate	30.8	2.1	12.7	1.3	46.9	2.5	17.2	32.0	51.7	98.6
of which Government	9.7	1.1	4.8	–	15.6	–	10.2	13.2	23.4	39.0
of which ABS	2.1	0.1	0.7	–	2.9	–	1.8	10.3	12.1	15.0
Derivatives[ii]	1.4	–	(0.6)	–	0.8	–	0.1	(0.2)	(0.1)	0.7
Deposits[iii]	11.9	1.3	1.0	–	14.2	–	(0.1)	–	(0.1)	14.1
Cash and cash equivalents	2.5	0.2	1.0	1.5	5.2	–	1.6	2.6	4.2	9.4
Other	1.4	0.3	0.1	–	1.8	–	–	–	–	1.8
Other AUMA										21.1
Total[iv]	143.0	16.1	24.5	3.1	186.7	6.4	52.7	103.1	162.2	370.0

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

1.3 (iii) AUMA by geography

The below table illustrates AUMA by geography based on the country of the underlying client:

As at 31 December	2022 £bn	2021 £bn
UK	**264.1**	299.9
Rest of Europe	**52.7**	48.3
Asia-Pacific	**11.1**	9.5
Middle East and Africa	**12.7**	11.0
Americas	**1.4**	1.3
Total AUMA[i]	**342.0**	370.0

i Included in total AUMA of £342.0 billion (2021: £370.0 billion) is £12.7 billion (2021: £7.9 billion) of assets under advice.

1.4 Solvency II capital position

1.4.1 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 Solvency II.

The Solvency II surplus represents the aggregated capital (own funds) held by the Group less the 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.

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

As at 31 December	2022 £bn	2021 £bn
IFRS shareholders' equity	**2.8**	5.3
Add back unallocated surplus of the With-Profits Fund	**15.1**	16.7
Deduct goodwill and intangible assets	**(1.6)**	(1.4)
Net impact of policyholder liabilities and reinsurance assets on Solvency II basis	**(0.7)**	(0.3)
Impact of introducing Solvency II risk margin (net of transitional measures)	**(1.0)**	(1.1)
Impact of measuring assets and liabilities in line with Solvency II principles	**0.8**	0.2
Recognise own shares	**0.1**	0.1
Other	**–**	–
Solvency II excess of assets over liabilities	**15.5**	19.5
Subordinated debt capital	**3.0**	3.7
Ring-fenced fund restrictions	**(6.6)**	(7.8)
Deduct own shares	**(0.1)**	(0.1)
Solvency II eligible own funds	**11.8**	15.3

The key items in the reconciliation are explained below:

- Unallocated surplus of the With-Profits Fund: this amount is treated as a liability under IFRS, but considered surplus assets under Solvency II.
- Goodwill and intangible assets: these assets are not recognised under Solvency II as they are not readily available to meet emerging losses.
- Policyholder liability and reinsurance asset valuation differences: there are significant differences in the valuation of technical provisions between IFRS and Solvency II. The most material differences relate to the exclusion of prudent margins in longevity assumptions under Solvency II, and also the use of different discount rates, both in relation to the valuation of annuity liabilities.
- Solvency II risk margin (net of transitional measures): the risk margin is a significant component of technical provisions required to be held under Solvency II. These additional requirements are partially mitigated by transitional measures which allow the impact to be gradually introduced over a period of 16 years from the introduction of Solvency II on 1 January 2016.

1.4 Solvency II capital position continued

- Subordinated debt capital: subordinated debt is treated as a liability in the IFRS financial statements and in determining the excess of assets over liabilities in the Solvency II balance sheet. However, for Solvency II own funds, the debt can be treated as capital.
- Ring-fenced fund restrictions: any excess of the own funds over the solvency capital requirements from the With-Profits Fund is restricted as these amounts are not available to meet losses elsewhere in the Group.

1.4.3 Composition of own funds

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

As at 31 December	2022 £bn	2021 £bn
Tier 1 (unrestricted)	**8.2**	11.5
Tier 2	**3.0**	3.7
Tier 3	**0.6**	0.1
Total eligible own funds	**11.8**	15.3

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 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 27 of the consolidated financial statements. 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 £0.6bn (2021: £0.1bn) relates to deferred tax asset balances.

1.4.4 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 and unaudited shareholder Solvency II capital position for the Group is shown below:

As at 31 December	2022 £bn	2021 £bn
Shareholder Solvency II eligible own funds	**9.3**	11.4
Shareholder Solvency II SCR	**(4.7)**	(5.2)
Solvency II surplus	**4.6**	6.2
Shareholder Solvency II coverage ratio[i]	**199%**	218%

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 Section 1.4.5.

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

- An SCR 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.

1.4 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 31 December	2022 £bn	2021 £bn
Equity	**1.7**	1.7
Property	**0.9**	0.9
Interest rate	**0.6**	0.3
Credit	**1.6**	2.7
Currency	**1.1**	1.0
Longevity	**0.9**	1.6
Lapse	**0.5**	0.3
Operational & expense	**1.3**	1.4
Sectoral[i]	**0.7**	0.6
Total undiversified	**9.3**	10.5
Diversification, deferred tax and other	**(4.6)**	(5.3)
Shareholder SCR	**4.7**	5.2

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 Solvency II surplus and 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.

	2022		2021	
As at 31 December	Surplus £bn	Shareholder coverage ratio %	Surplus £bn	Shareholder coverage ratio %
Base (as reported)	**4.6**	**199%**	6.2	218%
20% instantaneous fall in equity markets	**4.0**	**187%**	5.5	208%
20% instantaneous fall in property markets	**4.2**	**190%**	5.7	211%
50bp reduction in interest rates	**4.4**	**191%**	6.1	208%
100bp widening in credit spreads	**4.3**	**196%**	5.9	218%
20% credit asset downgrade[i]	**4.4**	**194%**	5.9	211%

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

1.4.5 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 and unaudited Solvency II capital position for the Group under the With-Profits Fund view is shown below:

As at 31 December	2022 £bn	2021 £bn
With-Profits Fund Solvency II own funds	**9.1**	11.6
With-Profits Fund Solvency II SCR	**(2.5)**	(3.8)
With-Profits Fund Solvency II surplus	**6.6**	7.8
With-Profits Fund Solvency II coverage ratio[i]	**362%**	302%

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

1.4 Solvency II capital position continued

1.4.6 Estimated regulatory view of the Solvency II capital position

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

As at 31 December	2022 £bn	2021 £bn
Solvency II own funds	**11.8**	15.3
Solvency II SCR	**(7.2)**	(9.1)
Solvency II surplus	**4.6**	6.2
Solvency II coverage ratio[i]	**164%**	168%

i Solvency II coverage ratio has been calculated using unrounded figures. On a regulatory approved transition measures on technical provisions basis, the surplus is £4.8bn (2021: £6.2bn) and the solvency coverage ratio is 168% (2021: 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 transitional measures do not align to the latest approved regulatory position and therefore the estimated and unaudited Solvency II capital position differs 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 2021, the recalculation was approved for the reporting date and the positions were aligned.

1.5 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 any discontinued operations.

Operating capital generation is the total capital generation before tax, adjusted to exclude market movements relative to those expected under long-term assumptions and to remove other non-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 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 over the risk-free rate was 4.10% for the year ended 31 December 2022 (2021: 4.00%). For annuity business, the assumed average return on assets backing capital was 2.19% for the year ended 31 December 2022 (2021: 1.15%).

The Group's capital generation results in respect of the years ended 31 December 2022 and 31 December 2021 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 Section 1.4.

1.5 Capital generation continued

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

	Asset Management		Retail and Savings		Corporate Centre		Total	
For the year ended 31 December	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m
Underlying capital generation	**246**	313	**641**	459	**(259)**	(288)	**628**	484
Other operating capital generation	**(33)**	15	**194**	621	**32**	(3)	**193**	633
Operating capital generation	**213**	328	**835**	1,080	**(227)**	(291)	**821**	1,117
Market movements							**(1,225)**	917
Restructuring & other							**(166)**	(181)
Tax							**173**	(31)
Total capital generation							**(397)**	1,822

A reconciliation of the movement in Group Solvency II surplus is presented below.

		2022			2021		
For the year ended 31 December		Own funds[i] £m	SCR[i] £m	Surplus £m	Own funds[i] £m	SCR[i] £m	Surplus £m
Underlying capital generation							
Asset Management	Asset Management	**268**	**(22)**	**246**	308	5	313
	Asset Management underlying capital generation	**268**	**(22)**	**246**	308	5	313
Retail and Savings	Wealth	**214**	**(59)**	**155**	117	(68)	49
	of which with-profits	**233**	**(53)**	**180**	128	(68)	60
	– *in-force*	**187**	**29**	**216**	169	(57)	112
	– *new business*	**46**	**(82)**	**(36)**	(41)	(11)	(52)
	of which Platform and advice	**(21)**	**(4)**	**(25)**	(11)	–	(11)
	Heritage	**339**	**164**	**503**	185	193	378
	of which with-profits	**138**	**54**	**192**	115	27	142
	of which annuity and other	**201**	**110**	**311**	70	166	236
	Other Retail and Savings	**43**	**(60)**	**(17)**	36	(4)	32
	Retail and Savings underlying capital generation	**596**	**45**	**641**	338	121	459
Corporate	Interest and head office costs	**(267)**	**8**	**(259)**	(280)	(8)	(288)
Underlying capital generation		**597**	**31**	**628**	366	118	484
Other operating capital generation		**194**	**(1)**	**193**	217	416	633
	of which Asset Management	**7**	**(40)**	**(33)**	5	10	15
	of which Retail and Savings	**188**	**6**	**194**	201	420	621
	of which Corporate Centre	**(1)**	**33**	**32**	11	(14)	(3)
Operating capital generation		**791**	**30**	**821**	583	534	1,117
	Market movements	**(2,259)**	**1,034**	**(1,225)**	739	178	917
	Restructuring and other	**(173)**	**7**	**(166)**	(167)	(14)	(181)
	Tax	**652**	**(479)**	**173**	16	(47)	(31)
Total capital generation		**(989)**	**592**	**(397)**	1,171	651	1,822
Dividends and capital movements		**(1,151)**	**(15)**	**(1,166)**	(410)	(24)	(434)
Total (decrease)/increase in Solvency II surplus		**(2,140)**	**577**	**(1,563)**	761	627	1,388

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.

1.6 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.

1.6 (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	2022 £m	2021 £m
Total Asset Management operating expenses	**763**	672
Adjustment for revaluations[i]	**2**	(3)
Total Asset Management adjusted costs	**765**	669
Total Asset Management fee based revenue	**1,051**	976
Less: performance fees and carried interest	**(56)**	(23)
Total Asset Management underlying fee-based revenue	**995**	953
Cost/income ratio (%)	**77%**	70%

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.

1.6 (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.

	2022			2021		
For the year ended 31 December	Average AUMA[i] £bn	Revenue[ii] £m	Fee margin[ii] bps	Average AUMA[i] £bn	Revenue[ii] £m	Fee margin[ii] bps
Wholesale Asset Management	**52**	**299**	**58**	53	316	59
Institutional Asset Management	**102**	**390**	**38**	93	334	36
Internal	**157**	**306**	**19**	157	303	19
Total Asset Management	**311**	**995**	**32**	303	953	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.

1.7 Credit risk

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

While the with-profits and unit-linked funds have large holdings of assets subject to credit risk, the shareholder results of the Group are not directly exposed to credit defaults on assets held in these components. The direct exposure of the Group's shareholders' equity to credit default risk in the "Other" component in Note 33.1 is small in the context of the Group. However, the shareholder is indirectly exposed to credit risk on these components through lower shareholder transfers in respect of the with-profits business and lower charges levied in respect of the "unit-linked" and "other" components of the business. Further detail on the Group's exposure to credit risk on the annuity portfolio is included in Note 33.2.

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	2022 £m	2021 £m
Financial	**3,987**	5,588
Government	**3,085**	4,861
Real Estate	**1,709**	2,830
Utilities	**1,793**	2,467
Consumer	**613**	817
Industrial	**425**	617
Communications	**274**	365
Other	**513**	721
Total	**12,399**	18,266

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 24 May 2023 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.

International shareholders
Tel +44 (0)121 415 0280

Term	Definition
ABI	The Association of British Insurers.
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 318.
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	The 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)	AUMA represents the total market value of all financial assets managed, administered or advised on behalf of clients.
Average fee margin	The 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; and – 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.

Term	Definition
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.
COP	United Nations (UN) climate summits are held every year, for governments to agree steps to limit global temperature rises - they are referred to as COPs, which stands for "Conference of the Parties". The parties are the attending countries that signed up to the original UN climate agreement in 1992.
Corporate Sustainability Reporting Directive (CSRD)	The EU is bringing sustainability reporting in line with financial reporting, with the introduction of the CSRD. The new framework will be rolled out in a phased approach from 2024. It will require companies to report on how sustainability issues, such as climate change, impact their business and how their operations in turn affect people and planet (reflecting the principle of 'double materiality'). The new regulation updates previous corporate sustainability reporting under the 2014 Non-Financial Reporting Directive (NFRD).
Demerger	The demerger from the Prudential Group in October 2019.
Department for Environment, Food and Rural Affairs (DEFRA)	Conversion factors are issued by DEFRA which allow organisations to calculate greenhouse gas (GHG) emissions from a range of activities, including energy use, water consumption, waste disposal, recycling and transport activities.
Director	A Director of the Company.

Term	Definition
Earnings per share (EPS)	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. Diluted EPS adjusts the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares, such as share options awarded to employees.
Employee benefit trust (EBT)	An 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)	EVIC is the sum of market capitalisation plus total debt. Market capitalisation is driven by fundamentals (earnings) and market valuations as measured by Price Earnings (P/E ratios).
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.
Fair value through profit or loss (FVTPL)	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 FCA is 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.

Term	Definition
Group	The Company and its subsidiaries.
Group Executive Committee	The Group Executive Committee is composed of board officers and senior-level executive management. It is the Group's most senior executive decision-making forum.
Investment Funds Direct Limited (IFDL)	Platform business purchased from Royal London in 2020. Previously known as Ascentric, now rebranded as M&G Wealth Platform.
Institutional Investor Group on Climate Change (IIGCC)	The 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 Energy Agency (IEA)	The IEA compiles annual emission factors for world countries from electricity and heat generation.
International Financial Reporting Standards (IFRS)	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.
Inter-Governmental Panel on Climate Change (IPCC)	The IPCC was 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.

Term	Definition
Leverage ratio	The leverage ratio is calculated as the nominal value of debt as a percentage of the Group's shareholder Solvency II own funds.
Long-Term Incentive Plan (LTIP)	The part of an executive's remuneration designed to incentivise long-term value for shareholders through an award of shares, with vesting contingent on employment and the satisfaction of stretching performance conditions linked to our 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	Net client flows represent gross inflows less gross outflows. Gross inflows are new funds from clients. Gross outflows are withdrawals made by clients during the period.
Net promoter score	Net promoter score is a measure of the willingness of a company's clients to recommend its products or services to others.

Term	Definition
Network for Greening the Financial System (NGFS)	The 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)	Convened by the UN, the NZAOA seeks to transform member investment portfolios to net zero GHG emissions by 2050.
Net Zero Investment Framework (NZIF)	The NZIF, published in March 2021 by the Institutional Investors Group on Climate Change, provides a common set of recommended actions, metrics and methodologies through which investors can maximise their contribution to achieving global net zero global emissions by 2050 or sooner.
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	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.
Operational control	The Group has operational control over a subsidiary when it has the full authority to introduce and implement operating policies.
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.

Term	Definition
Paris Agreement	The 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)	The 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)	The 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.
Prudential Regulation Authority (PRA)	The PRA is the body responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.
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.
RE-DISS	The Reliable Disclosure Systems for Europe project (hereafter RE-DISS) of the EU has made calculations for electricity tracking in European countries since 2009 - RE-DISS aims at improving significantly the reliability of information given to consumers of electricity in the EU re the origin of their consumption mix.
Renewable Energy Guarantees of Origin (REGO)	The REGO scheme provides transparency to consumers about the proportion of electricity that suppliers source from renewable generation.

Term	Definition
Sustainability Accounting Standards Board (SASB)	The 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.
Scottish Amicable Insurance Fund (SAIF)	SAIF is 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	Shareholder Solvency II coverage ratio is the ratio of own funds to solvency capital requirement (SCR), excluding the contribution to own funds and SCR from our ring-fenced With-Profits Fund.

Term	Definition
SICAV	A SICAV (Société d'investissement à Capital Variable) 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 own funds that we hold less the solvency capital requirement.
Taskforce on Nature-Related Financial Disclosures (TNFD)	The 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 environmental risks and opportunities with the ultimate goal of channeling capital flows into positive action.
Task Force on Climate-Related Financial Disclosures (TCFD)	The TCFD was created by the Financial Stability Board 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.
Total capital generation	Total capital generation is the total change in Solvency II surplus capital 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.
Transition Plan Taskforce (TPT)	The TPT was launched by HM Treasury in April 2022 to develop the gold standard for private sector climate transition plans. The TPT is informing and building on international disclosure standards.

Term	Definition
Transitional measures	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 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.
UN Principles for Responsible Investment (UNPRI)	UNPRI 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.
Verified Carbon Standard (VCS)	The VCS Program is the world's most widely used greenhouse gas (GHG) crediting program - it drives finance toward activities that reduce and remove emissions, improve livelihoods, and protect nature.
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.

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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', 'should', 'continue', 'aims', 'estimates', 'projects', 'believes', 'intends', 'expects', 'plans', 'seeks', 'outlook' and 'anticipates', and words of similar meaning, are forward-looking statements.
These statements are based on plans, estimates and projections as at the time they are made, and therefore persons reading this announcement are cautioned against placing undue reliance on forward-looking statements.

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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.

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