11 August 2022

M&G plc half year 2022 results

Improved fund flows underpin a resilient operational and financial performance
Solid start to new £2.5bn operating capital generation target by 2024

John Foley, Chief Executive, said:

"This is an encouraging set of results and provides evidence that M&G is continuing to build momentum. Improved client flows underpinned a resilient operational and financial performance despite a period of volatility when many investors reduced their exposure to markets.

"The turnaround in flows builds on the progress we made in 2021. In only 12 months, we have reversed our position from being £2 billion in net client outflows, to achieving £1.2 billion in net client inflows excluding Heritage.

"Importantly, Wholesale Asset Management achieved net client inflows for the first time since 2018 totaling £0.8 billion.

"Our continued investment in M&G Wealth positions it to become a major player in the UK wealth market. In addition to recently announcing an agreement to acquire Continuum Financial Services, M&G Wealth has also launched PruFund Planet on its digital platform, the first time that PruFund has been offered as a choice on any investment platform in the UK.

"The current macro-economic environment is creating uncertainty in the markets in which we operate. However, our diversified sources of earnings and strong shareholder Solvency II coverage ratio protects our ability to invest in the business and, as today's interim dividend of 6.2 pence per share shows, deliver attractive shareholder returns."

H1 financial highlights

- Operating capital generation of £433 million, up 40% on the same period last year, representing a solid start to the achievement of our new operating capital generation target of £2.5 billion by the end of 2024
- Shareholder Solvency II coverage ratio remains very strong at 214% despite total capital generation falling to £24 million (30 June 2021: £869 million) as a result of increasing yields and falling equity markets
- Adjusted operating profit before tax decreased to £182 million, impacted by current market conditions
- IFRS loss after tax of £1,045 million; impacted by short-term fluctuation losses in the fair value of the surplus assets in our annuity portfolio and derivatives used to hedge the Solvency II balance sheet caused by increasing yields
- Assets under management and administration decreased by £21.1 billion to £348.9 billion, driven mainly by adverse market movements, with net client inflows (excluding Heritage) of £1.2 billion
- We are well on track with our buy-back programme having deployed almost £150 million to date
- Interim dividend of 6.2 pence per share, in line with our policy of paying one-third of the previous year's total dividend, with the dividend per share up 2% as a result of the share buy-back programme

H1 operational highlights

- Wholesale Asset Management returned to net client inflows for the first time in four years with a total of £0.8 billion, compared to £3.4 billion of net client outflows in the same period last year reflecting the measures taken to improve investment performance and offer better value to customers and clients
- Improved performance in Wholesale Asset Management, with 62% of funds in upper two performance quartiles over one year (31 December 2021: 45%) and 61% over three years (31 December 2021: 36%)[1]
- Continued growth in our Institutional Asset Management business with net client inflows of £0.3 billion
- Improved net client flows for M&G Wealth, with gross inflows into PruFund increasing to £2.5 billion (30 June 2021: £1.9 billion) following strong investment performance, digitisation, with PruFund Planet being launched on the M&G Wealth platform, and better service levels
- Roll out of PruFund-type products in Europe progressing with the launch of Future+ in Italy in February, and in Ireland later this year
- Further strengthened M&G Wealth with the recently announced agreement to acquire Continuum Financial Services which broadens our independent advice footprint
- Completed the acquisition of Swiss impact investor responsAbility and published our position on thermal coal, which included our intention to phase out investment in thermal coal by 2030 for OECD and EU countries and 2040 for developing countries

[1] Source M&G plc and Morningstar Inc.

Outlook

- Cautiously optimistic about the turnaround in Wholesale Asset Management in light of continued action on investment performance and net inflows into our new generation of thematic funds but remain mindful of the challenging external environment
- Institutional Asset Management well-placed given consistent strong performance with £4.4 billion of committed client capital for private assets and further client wins yet to be funded
- Following recent acquisitions and partnerships, we believe M&G Wealth now has all the building blocks required to progress on its journey to become a major player in the UK wealth market
- On-going macro economic uncertainty has the potential to disrupt markets further and impact our results
- Strong Solvency II ratio of 214% underpins dividend policy

	For the six months ended 30 June		For the year ended 31 December
Performance highlights[i]	**2022**	2021	2021
Adjusted operating profit before tax (£m)	**182**	327	721
IFRS (loss)/profit after tax (£m)	**(1,045)**	(248)	92
Assets under management and administration (£bn)	**348.9**	370.0	370.0
Net client flows (excluding Heritage) (£bn)	**1.2**	(2.0)	0.6
Operating capital generation (£m)	**433**	309	1,117
Total capital generation (£m)	**24**	869	1,822
Shareholder Solvency II coverage ratio (%)	**214 %**	198 %	218 %

[i] Definitions of key performance measures are provided in the Supplementary information section of the Interim Financial Report on page 56.

Enquiries:

Media		**Investors/Analysts**	
Jonathan Miller	+44(0)20 8162 1699	Luca Gagliardi	+44(0)20 8162 7307
Sophie Redburn	+44(0)20 8162 6300		

Notes to editors

1. The condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting ('IAS 34'), as adopted by the UK, and the Disclosure and Transparency Rules of the Financial Conduct Authority based on the consolidated financial statements of M&G plc.
2. All key performance measures relate to continuing operations.
3. The shareholder view and regulatory view of the Solvency II coverage ratio as at 30 June 2022 assumes transitional measures on technical provisions which have been recalculated using management's estimate of the impact of operating and market conditions at the valuation date.
4. Total number of M&G plc shares in issue as at 30 June 2022 was 2,559,999,056.
5. A Q&A webcast will be hosted by John Foley (CEO) and Kathryn McLeland (CFO) on Thursday 11 August at 10:00 BST. You can register for the Q&A and view the investor presentation here (the presentation will be available from 07:00 BST): https://mngresults.connectid.cloud/register

   Dial in: UK freephone 0800 640 6441/ All other locations +44 203 936 2999 Participant code: 784094
6. **Ordinary dividend to be paid in September 2022**

Ex-dividend date	August 18, 2022
Record date	August 19, 2022
Payment of dividend	September 29, 2022

7. **About M&G plc**
   M&G plc is a leading international savings and investments business, managing money for both individual savers and institutional investors in 28 markets. With a heritage dating back more than 170 years, M&G plc has a long history of innovation in savings and investments, combining asset management and insurance expertise to offer a wide range of solutions. We serve our savings and insurance customers under the M&G Wealth and Prudential brands in the UK and Europe, and under the M&G Investments brand for asset management clients in the rest of the world.

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

9. **Forward-Looking Statements**

This announcement may contain certain 'forward-looking statements' with respect to M&G plc and its affiliates (the "M&G Group"), its plans, its current goals and expectations relating to its future financial condition, performance, results, operating environment, strategy and objectives. Statements that are not historical facts, including statements about M&G plc's beliefs and expectations and including, without limitation, statements containing the words 'may', 'will', 'should', 'continue', 'aims', 'estimates', 'projects', 'believes', 'intends', 'expects', 'plans', 'seeks', 'outlook' and 'anticipates', and words of similar meaning, are forward-looking statements. These statements are based on plans, estimates and projections as at the time they are made, and therefore persons reading this announcement are cautioned against placing undue reliance on forward-looking statements. By their nature, all forward-looking statements involve inherent assumptions, risk and uncertainty, as they generally relate to future events and circumstances that may be beyond the M&G Group's control. A number of important factors could cause M&G plc's actual future financial condition or performance or other indicated results to differ materially from those indicated in any forward-looking statement. Such factors include, but are not limited to, UK domestic and global economic and business conditions (including the political, legal and economic effects of the UK's decision to leave the European Union); market-related conditions and risk, including fluctuations in interest rates and exchange rates, the potential for a sustained low-interest rate environment, corporate liquidity risk and the future trading value of the shares of M&G plc; investment portfolio-related risks, such as the performance of financial markets generally; the policies and actions of regulatory authorities, including, for example, new government initiatives; the impact of competition, economic uncertainty, inflation and deflation; the effect on M&G plc's business and results from, in particular, mortality and morbidity trends, longevity assumptions, lapse rates and policy renewal rates; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; the impact of internal projects and other strategic actions, such as transformation programmes, failing to meet their objectives; the impact of operational risks, including risk associated with third party arrangements, reliance on third party distribution channels and disruption to the availability, confidentiality or integrity of M&G plc's IT systems (or those of its suppliers); the impact of changes in capital, solvency standards, accounting standards or relevant regulatory frameworks, and tax and other legislation and regulations in the jurisdictions in which the M&G Group operates; and the impact of legal and regulatory actions, investigations and disputes. These and other important factors may, for example, result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits. Any forward-looking statements contained in this document speak only as of the date on which they are made. M&G plc expressly disclaims any obligation to update any of the forward-looking statements contained in this document or any other forward-looking statements it may make, whether as a result of future events, new information or otherwise except as required pursuant to the UK Prospectus Rules, the UK Listing Rules, the UK Disclosure Guidance and Transparency Rules, or other applicable laws and regulations. Nothing in this announcement shall be construed as a profit forecast, or an offer to sell or the solicitation of an offer to buy any securities.

LEI: 254900TWUJUQ44TQJY84 Classification: 3.1 Additional regulated information required to be disclosed under the laws of a Member State

Management statement

Over the first half of 2022 we continued to build on the progress made in 2021 and, despite the current macro economic uncertainties, have provided evidence of the continued momentum across our business. All our colleagues have worked relentlessly to strengthen our business, and focus on delivering our strategic commitments to our customers, clients and shareholders.

We have achieved net client inflows (excluding Heritage) of £1.2 billion for the six months to 30 June 2022 compared to net client outflows of £2.0 billion for the first six months of 2021. Strong investment performance helped us to achieve net client inflows in Asset Management and, coupled with an enhanced digitisation of our offering, an improvement in net client flows in M&G Wealth. This is an encouraging performance in the context of a period of heightened volatility, during which investors reduced their exposure to markets. Adverse market movements have resulted in AUMA decreasing by £21.1 billion to £348.9 billion over the six months to 30 June 2022.

Adjusted operating profit before tax of £182 million (30 June 2021: £327 million) has been affected by the impact of rising interest rates on the annuity margin and a foreign exchange loss on our USD denominated subordinated debt.

Our IFRS result has been severely impacted by rising interest rates in the period with unrealised fair value losses on the surplus assets in the annuity portfolio and fair value losses on the interest rate hedging we have in place to protect our Solvency II capital position resulting in a loss after tax attributable to equity holders in the period of £1,045 million (30 June 2021: £248 million loss).

The underlying capital contribution from our Wealth and Heritage businesses has increased compared to the first half of 2021 leading to a 40% improvement in operating capital generation to £433 million. At full year, we shared our new financial target: to generate £2.5 billion of operating capital by 2024 and are pleased that we have made a solid start on this journey.

Total capital generation during the period was £24 million (30 June 2021: £869 million) impacted severely by increasing yields and falling equity markets which have led to negative market movements of £482 million compared to positive movements of £600 million for the six months to 30 June 2021.

Despite adverse markets, our Solvency II ratio continues to be very strong at 214% (31 December 2021: 218%) demonstrating the resilience of our balance sheet. As a result we remain fully committed to our ongoing buy-back programme.

Net client inflows in Asset Management

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 net client inflows for the first time since 2018, reflecting the positive effects of the series of measures we announced two years ago to improve investment performance and offer better value to our wholesale customers and clients. The impact from our new generation of sustainable and thematic funds also contributed to this result with net client inflows of £0.8 billion in the period (30 June 2021: net client outflows of £3.4 billion). The performance of our funds has improved with 62% of funds in upper two performance quartiles over one year (31 December 2021: 45%) and 61% over three years (31 December 2021: 36%).

Our Institutional Asset Management business has delivered growth consistently, period-on-period, for the past three years. Over the first six months of 2022, we have seen a number of clients adopting a defensive allocation of resources, retaining a greater share of assets in cash. When this trend reverses our strong track record means we are well positioned to capture demand. Our pipeline remains strong, with a number of advised wins that are yet to transfer their funds, and a £4.4 billion capital queue ready to be deployed into private and alternative assets.

In May we completed the acquisition of responsAbility, a Swiss based private asset manager which is a leader in impact investing focused on private debt and private equity across emerging markets, with £2.9 billion of assets under management. The integration of responsAbility is going well.

M&G Wealth and growth in Europe

In M&G Wealth, which includes our flagship investment proposition PruFund, net client flows were neutral compared to £0.8 billion net client outflows for the six months to 30 June 2021. We have delivered on important components of our strategy to develop and grow M&G Wealth. Partnering with Moneyfarm gives us the opportunity to launch a direct-to-customer offering, improving our reach to younger demographics, and the ability to serve customers earlier in their savings and investment lifecycle. The integration of our digital platform in our broader IT infrastructure enables us to bring PruFund, as well as many other propositions, to more advisers, and more customers, more efficiently. With the acquisition of Sandringham and our recently announced agreement to acquire Continuum Financial Services, we have expanded our adviser base, strengthening controlled distribution. Through the recent acquisition of TCF, we can now participate in the model portfolio and discretionary fund management space. To acquire these entities, we have deployed capital in a targeted and disciplined way, opening up opportunities in attractive markets, that are supported by favourable dynamics.

We have continued to increase the number of ways customers can invest in PruFund with the launch of PruFund Planet on our digital platform and the launch of Future + in Italy in February 2022. The latter venture, with Banca Intesa Sanpaolo, offers Italian savers access to a family of global multi-asset funds delivering smoothed outcomes.

Progress on embedding sustainability in our business

Eighteen months ago we committed to embedding sustainability into everything we do at M&G to help ensure a better long-term future for our customers, our shareholders and for the planet, and a few months later we published our ten point sustainability plan setting out how we are going to achieve this ambition. In June 2022 we published our second sustainability report which sets out the progress made on this plan.

Management statement (continued)

As a major global investor, the most significant difference we can make is through our actions and our investment decisions. In March we set out our position on thermal coal which is to phase out investment in coal by 2030 for OECD and EU countries and 2040 for developing countries: a forward-looking approach to enable real world, positive change, recognising that the financial sector has a pivotal role in financing a just transition.

In March we published a climate transition plan which sets out how we are addressing the risks and opportunities of climate transition as a business and investors, including achieving net zero for our business operations by 2030 and net zero across our investment portfolios by 2050. In line with our operational target we have recently signed the lease on our new Kildean office in Stirling, replacing our Craigforth site. Kildean is on target to be 80% more energy efficient than its predecessor.

In 2021 we became one of the first companies to commit to holding a say on climate vote. We are pleased that at our AGM in May the majority of our shareholders voted to approve the resolution and are reflecting on the valuable feedback we received from shareholders on our resolution and climate transition plan. We will communicate further on this by November.

We have also made good progress on diversity and inclusion this year, which alongside climate is one of our top sustainability priorities, with the recent appointments to the Group Executive Committee of Kathryn McLeland as Chief Financial Officer and Vanessa Murden as Chief Operating Officer.

Leadership changes

During the period, as announced previously, there were some new additions to the Board. Our new Chair Edward Braham joined us in March 2022 and in May we welcomed Dev Sanyal as a Non-Executive Director and Kathryn as Executive Director in her role as CFO.

In April 2022, and after more than 20 years with M&G and Prudential John Foley, announced his intention to retire. The process to find John's successor, led by Edward and supported by the Board, is ongoing. In July, Jack Daniels also announced his intention to retire as Managing Director of Asset Management and Chief Investment Officer.

Dividend and capital return

We have declared an interim ordinary dividend of 6.2 pence per share, payable on 29 September 2022.

With the interim dividend, we will have returned over £1.5 billion to shareholders in dividends since our establishment as an independent listed company in 2019. In addition, we are also making good progress with our £500 million share buy-back programme having deployed almost £150 million to date.

We will have returned £2 billion to shareholders since listing after payment of the interim dividend and completion of the share buy-back, approximately 35% of our market capitalisation at demerger.

Outlook

This is an encouraging set of results against the current challenging market backdrop which demonstrates the resilience of our business model; we feel momentum is continuing to build in the business and we are well positioned to better serve our customers and clients and take advantage of market opportunities as they arise.

We have delivered a consistently strong investment performance set against a challenging period for our sector. We expect this trend to continue through the remainder of the year. The shift from net client outflows to net client inflows (excluding Heritage) was a key moment for us and we aim to build on this going forward. We believe that M&G Wealth now has all the building blocks required to progress on its journey to becoming a major player in the UK Wealth market.

The current macro economic environment creates on-going uncertainty in the markets in which we operate. However, we believe that our diversified sources of earnings and strong shareholder capital position will continue to protect our ability to invest selectively in the business and deliver attractive shareholder returns.

Overview of Group results

Adjusted operating profit before tax

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

£m	For the six months ended 30 June 2022	2021	For the year ended 31 December 2021
Fee-based revenues	**653**	607	1,254
Annuity margin	**33**	157	369
With-profit shareholder transfer net of hedging gains/(losses)[i]	**195**	123	268
Adjusted operating income	**881**	887	1,891
Adjusted operating expenses	**(561)**	(516)	(1,063)
Other shareholder loss	**(130)**	(47)	(101)
Share of profit from joint ventures and associates[ii]	**—**	6	6
Adjusted operating profit attributable to non-controlling interests	**(8)**	(3)	(12)
Adjusted operating profit before tax	**182**	327	721
Short-term fluctuations in investment returns	**(1,448)**	(549)	(537)
Profit on disposal of business and corporate transactions	**—**	—	35
Amortisation of intangible assets acquired in business combinations	**(3)**	—	(4)
Restructuring and other costs[iii]	**(64)**	(85)	(146)
IFRS profit attributable to non-controlling interests	**8**	3	12
IFRS (loss)/profit before tax attributable to equity holders	**(1,325)**	(304)	81
Tax credit attributable to equity holders	**280**	56	11
IFRS (loss)/profit after tax attributable to equity holders	**(1,045)**	(248)	92

[i] 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.

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

[iii] Restructuring and other costs excluded from adjusted operating profit relate to merger and transformation costs allocated to the shareholder. These differ to restructuring costs included in the analysis of administrative and other expenses in Note 5 which include costs allocated to the policyholder.

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

£m	For the six months ended 30 June 2022	2021	For the year ended 31 December 2021
Core Asset Management	**117**	137	277
Performance fees (including carried interest) and investment income	**7**	10	38
Asset Management	**124**	147	315
Wealth	**65**	5	41
Heritage	**169**	282	620
Other	**(8)**	9	(1)
Retail and Savings	**226**	296	660
Corporate Centre	**(168)**	(116)	(254)
Adjusted operating profit before tax	**182**	327	721

Adjusted operating profit before tax decreased to £182 million in the six months to 30 June 2022 (30 June 2021: £327 million). In Asset Management there has been an increase in expenses as we continue building out the capability and operations of our global investment function. In addition there has been an increase in the core cost base linked to inflation. This led to a reduction in Asset Management adjusted operating profit of £23 million to £124 million. In Retail and Savings, Wealth has benefited from an improved result from PruFund business but this has been more than offset by the Heritage result which has been impacted by a fall in the annuity margin by £124 million in the period, impacted by rising yields. The cost of the Corporate Centre increased by £52 million to £168 million due to negative foreign exchange movements on the USD subordinated debt, with a £48 million loss compared to a gain of £5 million in the prior period.

Overview of Group results (continued)

IFRS result after tax

The IFRS result after tax attributable to equity holders decreased to a loss of £1,045 million compared to a £248 million loss for the six months ended 30 June 2021. This £797 million adverse variance is reflective of a £1,448 million loss in the period (30 June 2021: £549 million loss) from short-term fluctuations in the valuation of hedging instruments and surplus assets in the annuity portfolio, partly offset by a £21 million decrease in restructuring and other costs and a £224 million increase in the equity holders' tax credit.

In Retail and Savings, market conditions have led to significant losses from short-term fluctuations in investment returns for the first six months of 2022. These losses primarily comprise an £817 million loss (30 June 2021: £182 million loss) from fair value movements on surplus assets in the annuity portfolio and a £602 million loss (30 June 2021: £124 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 period. Additionally losses of £123 million (30 June 2021: £50 million) 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 £130 million gain (30 June 2021: £156 million loss) as a result of falls in the UK, US and European equity 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 the overall loss in this period.

Restructuring and other costs of £64 million (30 June 2021: £85 million) relate primarily to £33 million (30 June 2021: £10 million, year ended 31 December 2021: £49 million) in relation to transformation of the business, £14 million (30 June 2021: £53 million, year ended 31 December 2021: £48 million) in respect of our future ways of working and associated changes to our office space and £17 million (30 June 2021: £21 million, year ended 31 December 2021: £45 million) of costs in relation to the integration of the M&G Wealth platform business. A significant part of our transformation programme is the on-going project to migrate our multiple administrative systems to one single system. We have incurred costs of £7 million (30 June 2021: £16 million, year ended 31 December 2021: £23 million) in relation to this programme in the six months ended 30 June 2022 and expect this programme to complete over the next 2 to 3 years.

The equity holders' effective tax rate for the six months ended 30 June 2022 was a negative 21.1% (resulting in a tax credit) compared to a negative 18.4% for the six months ended 30 June 2021. Excluding non-recurring items, the equity holders' effective tax rate was a negative 20.5% (30 June 2021: 17.1%). The equity holders' effective tax rate of 21.1% was higher than the UK statutory rate of 19% (30 June 2021: 19%). This reflects a favourable position (higher tax benefit on the pre-tax loss position) primarily due to the beneficial impact of recognising deferred tax assets on losses carried forward in the Prudential Assurance Company Limited (PAC), on 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 detrimental impacts arising from the non-recognition of deferred tax assets on other UK tax losses carried forward incurred during the period together with non-deductible expenses.

Capital generation

The following table shows an analysis of total capital generation:

	For the six months ended 30 June		For the year ended 31 December
£m	2022	2021	2021
Asset Management underlying capital generation	**142**	145	313
Retail and Savings underlying capital generation	**370**	213	459
Corporate Centre underlying capital generation	**(126)**	(142)	(288)
Underlying capital generation	**386**	216	484
Other operating capital generation	**47**	93	633
Operating capital generation	**433**	309	1,117
Market movements	**(482)**	600	917
Restructuring and other	**(71)**	(113)	(181)
Tax	**144**	73	(31)
Total capital generation	**24**	869	1,822

During the period we revised our capital generation methodology to reallocate realised gains and losses on equity hedges to protect future shareholder transfers from falling equity markets from underlying capital generation to other operating capital generation. We have not restated comparatives. The value of the realised losses on the equity hedges in the period was £33 million (30 June 2021: £70 million). There is no impact on overall operating capital generation which has increased by £124 million to £433 million reflecting the higher expected return on in-force business, particularly in respect of surplus assets in the annuity portfolio following the increase in yields over 2021 and an increase in the benefit from management and other actions in the period.

Total capital generation was £24 million for the six months ended 30 June 2022 (30 June 2021: £869 million), primarily reflecting the significant swing in market movements compared to the overall positive market movements experienced in the first half of 2021.

Market movements over the first six months of 2022 have resulted in a negative impact of £482 million (30 June 2021: £600 million positive impact) following a fall in US, UK, 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 £936 million (30 June 2021: £187 million). 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 £621 million (30 June 2021: £126 million) which are designed to protect in a falling interest rate environment, a reduction in the benefit of the present value of shareholder transfers less equity hedges to £221 million (30 June 2021: £485 million) and a reduction in capital requirements of £784 million.

Overview of Group results (continued)

Restructuring and other costs of £71 million has declined largely in line with non-operating profit restructuring costs. The overall Group impact of changes in capital regime to the new Investment Firms Prudential Regime (IFPR) on 1 January 2022 by both the asset management and M&G Wealth platform businesses was a reduction in surplus of £7 million and is also included in Restructuring and other. Tax increased by £71 million to £144 million compared to the six months ended 30 June 2021. Similar to IFRS, the movement is driven by movements in the value of deferred tax assets in period.

Capital position

The Group's Solvency II surplus decreased to £5.2 billion as at 30 June 2022 (31 December 2021: £6.2 billion), equivalent to a shareholder Solvency II coverage ratio of 214% (31 December 2021: 218%), driven by total capital generation of £24 million offset by reductions of £311 million from dividends paid to shareholders, a £500 million reduction in respect of the share buy-back programme announced in March, and a decrease of £215 million from other capital movements, which include the acquisitions of Sandringham, responsAbility, and TCF. The shareholder Solvency II coverage ratio of 214% demonstrates the resilience of our balance sheet in the current market conditions.

Our With-Profits Fund continues to have a strong Solvency II coverage ratio of 347%. This is an increase relative to the 302% reported at 31 December 2021; the distribution of excess surplus to policyholders reduced with-profits surplus by £1.0 billion, with market movements contributing to a further reduction in surplus over the period, but both of these items also reduced solvency capital requirements. In particular, the sharp increase in yields and fall in equity assets reduced exposure to market and longevity risks, resulting in an overall increase in the 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 the ratio.

The regulatory Solvency II coverage ratio of the Group as at 30 June 2022 increased to 171% (31 December 2021: 168%). This view of solvency combines the shareholder position and the With-Profits Fund, but excludes all surplus within the With-Profits Fund.

Financing and liquidity

The following table shows key financing and liquidity information:

£m	**As at 30 June 2022**	As at 30 June 2021	As at 31 December 2021
Parent company cash and liquid assets	**1,383**	1,684	1,709
Nominal value of debt	**3,262**	3,212	3,216
Leverage ratio[2]	**34 %**	30%	28%

The key metric we use to manage our debt is the leverage ratio, defined as the nominal value of debt as a percentage of the Group's shareholder Solvency II own funds. Our leverage ratio increased to 34% (31 December 2021: 28%) as a result of the fall in Solvency II Own Funds in the period due to the impact of market movements set out in the Capital Generation section.

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

	For the six months ended 30 June		For the year ended 31 December
£m	**2022**	2021	2021
Opening cash and liquid assets at 1 January	**1,709**	1,040	1,040
Cash remittances from subsidiaries	**253**	1,116	1,458
Corporate costs	**(89)**	(54)	(112)
Interest paid on core structural borrowings	**(94)**	(93)	(186)
Cash dividends paid to equity holders	**(311)**	(310)	(466)
Shares purchased in buy-back	**(85)**	—	—
Capital injections into subsidiaries	**—**	(15)	(25)
Closing cash and liquid assets at 30 June / 31 December[i]	**1,383**	1,684	1,709

[i] Closing cash and liquid assets at 30 June 2022 included a £1,325 million (30 June 2021: £1,630 million) inter-company loan asset with Prudential Capital plc, which acts as the Group's treasury function. The remaining balance is cash.

Movements in cash and liquid assets held by the parent company for the six months ended 30 June 2022 represent the remittances and payments that arise in the normal course of business. Total cash and liquid assets have decreased reflecting the deployment of capital in the period in relation to acquisitions and our share buy-back programme, with the remaining balance more than sufficient to cover the cash dividend payments to equity holders of £311 million (30 June 2021: £310 million) and interest paid on structural borrowings of £94 million (30 June 2021: £93 million). Cash remittances from subsidiaries reflect dividends paid to M&G plc from directly held subsidiaries. As part of our cash management processes, certain remittances in the period have been retained in lower level holding companies to fund acquisitions and therefore cash remittances from subsidiaries are not comparable period on period. Cash remittances received from subsidiaries in 2021 included a large remittance received indirectly from PAC in the first six months in line with our active capital management policy. The current levels of capital and liquidity reflect the continued market uncertainty and support for the ongoing share buy-back programme. We continue to monitor the short-term volatility in the relative strength of the balance sheet and market conditions to make sure we deploy this capital in the best interests of our shareholders while maintaining the Group’s liquidity position.

[2] Calculated as £3,262 million nominal value of debt divided by £9.7 billion Group shareholder Solvency II own funds for the six months ended 30 June 2022 (£3,216 million nominal value of debt divided by £11.4 billion Group shareholder Solvency II own funds for the year ended 31 December 2021).

Asset Management

Wholesale Asset Management returned to net client inflows for the first time since 2018 following the actions taken to improve investment outcomes for our customers and clients. Institutional Asset Management had positive net client inflows despite challenging market conditions, reflecting our strong investment performance and range of innovative investment solutions.

Assets under management and administration and net client flows

	Net client flows			AUMA[i]	
£bn	**For the six months ended 30 June 2022**	For the six months ended 30 June 2021	For the year ended 31 December 2021	**As at 30 June 2022**	As at 31 December 2021
Institutional Asset Management	**0.3**	2.2	5.8	**102.2**	103.1
Wholesale Asset Management	**0.8**	(3.4)	(3.8)	**50.6**	52.7
Other	**—**	—	—	**1.0**	0.9
Total Asset Management[i]	**1.1**	(1.2)	2.0	**153.8**	156.7

[i] Included in total Asset Management AUMA of £153.8 billion (year ended 31 December 2021: £156.7 billion) is £9.0 billion (year ended 31 December 2021: £7.9 billion) of assets under advice.

Overall our Asset Management business saw an improvement in net client flows with net client inflows of £1.1 billion compared to net client outflows of £1.2 billion for the six months ended 30 June 2021.

Institutional Asset Management net client inflows have fallen to £0.3 billion for the six months to 30 June 2022 compared to £2.2 billion to 30 June 2021 reflecting changing client behaviour when markets are volatile. A consistently strong investment performance across our Institutional business has resulted in wins in the period, with gross inflows in our Public Debt and Real Estate offerings of £3.2 billion and £1.0 billion respectively, with a strong pipeline for the remainder of the year. Overall AUMA decreased by 1% to £102.2 billion which was mainly driven by £5.1 billion negative market movements from Public Debt, partly offset by £2.9 billion additional AUMA from the acquisition of responsAbility.

Improved investment performance, the impact from our new sustainable and thematic fund ranges and recent pricing initiatives have underpinned the increase in client inflows into our Wholesale Asset Management business since late 2020 with positive sales momentum evident in our larger European markets. This has resulted in net client inflows in the six month period for the first time since 2018 of £0.8 billion. The improved flows were largely driven by our investment solutions channel, which accounted for £1.2 billion of net client inflows in the period. Wholesale Asset Management AUMA decreased 4% to £50.6 billion mainly as a result of £2.9 billion negative market movements, with the largest impact seen in the UK Wholesale channel.

Our expertise in private and alternative 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 and alternative assets under management increased 7% to £76.7 billion of AUMA as at 30 June 2022 (31 December 2021: £71.8 billion).

Adjusted operating profit before tax

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

	For the six months ended 30 June		For the year ended 31 December
£m	**2022**	2021	2021
Fee-based revenues[i]	**503**	465	976
Adjusted operating income	**503**	465	976
Adjusted operating expenses	**(367)**	(326)	(672)
Other shareholder (loss)/profit	**(4)**	5	17
Share of profit from joint ventures and associates	**—**	6	6
Adjusted operating profit attributable to non-controlling interest	**(8)**	(3)	(12)
Adjusted operating profit before tax	**124**	147	315

[i] £161 million of the fee-based revenues is in respect of assets managed on behalf of Retail and Savings (six months ended 30 June 2021: £151 million, year ended 31 December 2021: £303 million).

Asset Management adjusted operating profit before tax shown above reflects the acquisition of a controlling interest in M&G Investments Southern Africa Ltd (MGSA, formerly known as PPMSA) in July 2021. For the six months ended 30 June 2021 the share of profit from joint ventures and associates represents the profit from MGSA. For the six months ended 30 June 2022, MGSA is presented within fee-based revenue and adjusted operating expenses, with non-controlling interests removed to arrive at adjusted operating profit before tax.

Revenue earned by Institutional Asset Management increased to £291 million (30 June 2021: £256 million) which includes £28 million of revenue from MGSA. This was offset by marginally lower Wholesale Asset Management fee-based revenues of £201 million during the period (30 June 2021: £204 million) as a result of the remaining impact from the lower pricing structure applied to our UK OEICs in February 2021. Overall the Asset Management average fee margin of 31 basis points (bps) was 1 bp lower for the six months ended 30 June 2022 compared to 30 June 2021.

Asset Management (continued)

Asset Management adjusted operating expenses increased by £41 million compared to the six months ended 30 June 2021 to £367 million which includes £18 million of costs relating to MGSA. The additional costs relate to further development of our capabilities and operations across our global investment function of £14 million and the impact of inflation on our base costs of £12 million. As a result of these increased costs the cost/income ratio for the Asset Management business increased to 75% (30 June 2021: 71%).

Other shareholder (loss)/profit relates to investment income on seed investments and units held to hedge management incentive schemes which has fallen to a loss of £4m in the period compared to a gain of £5m for the six months ended 30 June 2021 reflecting the falls in equity markets in the period.

Capital generation

The following table shows an analysis of operating capital generation:

	For the six months ended 30 June		For the year ended 31 December
£m	**2022**	2021	2021
Underlying capital generation	**142**	145	313
Other operating capital generation	**(6)**	16	15
Operating capital generation	**136**	161	328

Underlying capital generation for the six months ended 30 June 2022 remained stable at £142 million (30 June 2021: £145 million), with the fall in adjusted operating profit offset by a reduction in sectoral capital requirements.

The overall contribution to operating capital generation from Asset Management business fell to £136 million (30 June 2021: £161 million). This primarily reflects a loss from investment income as a result of adverse market movements, compared to a benefit at 30 June 2021 in line with adjusted operating profit.

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 £36m primarily in relation to deferred tax assets that could no longer be recognised. This impact is not included in determining Operating capital generation but included in Total capital generation as Restructuring and other.

Retail and Savings

In Retail and Savings, improvements in Wealth flows demonstrate our strategic actions to grow this business are beginning to take effect. 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

£bn	Net client flows			AUMA[i]	
	For the six months ended 30 June 2022	For the six months ended 30 June 2021	For the year ended 31 December 2021	**As at 30 June 2022**	As at 31 December 2021
Wealth	**—**	(0.8)	(1.4)	**82.7**	84.2
Heritage	**(3.1)**	(3.3)	(6.9)	**101.9**	117.8
Other	**0.1**	—	—	**8.7**	9.1
Total Retail and Savings	**(3.0)**	(4.1)	(8.3)	**193.3**	211.1

[i] £155 billion of AUMA is managed internally by the Group's Asset Management businesses (six months ended 30 June 2021: £161 billion, year ended 31 December 2021: £169 billion).

Net client flows for Wealth were neutral compared to net client outflows of £0.8 billion in the six months to 30 June 2021 with gross inflows into PruFund in Wealth of £2.5 billion (30 June 2021: £1.9 billion) following improved service levels and digitisation. The overall reduction in Wealth AUMA of £1.5 billion primarily reflects adverse market movements, partly offset by a £2.4 billion increase from the acquisition of Sandringham.

Heritage AUMA decreased by £15.9 billion to £101.9 billion at 30 June 2022 (31 December 2021: £117.8 billion) driven by net client outflows of £3.1 billion, in line with expectations (30 June 2021: £3.3 billion), and adverse market movements of £12.8 billion, the biggest impact being a reduction in the value of fixed income assets of £8 billion and a decrease in equities of £6 billion.

Other Retail and Savings AUMA has fallen in the period to £8.7 billion from £9.1 billion despite positive net client inflows of £0.1 billion as a result of market movements.

Adjusted operating profit before tax

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

£m	For the six months ended 30 June		For the year ended 31 December
	2022	2021	2021
Fee-based revenues	**150**	142	278
Annuity margin	**33**	157	369
With-profits shareholder transfer net of hedging and other gains/(losses)	**195**	123	268
Adjusted operating income	**378**	422	915
Adjusted operating expenses	**(152)**	(142)	(296)
Other shareholder profit	**—**	16	41
Adjusted operating profit before tax	**226**	296	660

Adjusted operating income for the Retail and Savings business decreased to £378 million in the period (30 June 2021: £422 million) driven predominantly by a decrease of £124 million in the annuity margin. This was partly offset by an increase in fee-based revenues of £8 million, with fee-based revenue recognised for Sandringham for the first time, and an increase in return from the with-profits business of £72 million.

The decrease in annuity margin is primarily driven by the rising yields in the period due to differences in the durations of the long-term annuity liabilities and the assets held to back them. The mismatch between these assets and liabilities resulted in a loss of £78 million in the period (30 June 2021: loss of £15 million). In addition, benefits which occurred in the period to 30 June 2021, from the release of legacy remediation programmes and other one-off items did not repeat in the first half of 2022.

The with-profits shareholder transfer net of hedging and other gains/(losses) increased to £195 million (30 June 2021: £123 million). The gross with-profits shareholder transfer increased to £226 million (30 June 2021: £179 million) mainly due to improved market conditions over 2021 which triggered a number of upwards unit price adjustments on PruFund that flow through for the full six months of 2022 and a higher bonus declaration in the traditional with-profits book. The result also benefited from a 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 £47 million (30 June 2021: £7 million loss) on the derivative instruments used to mitigate the equity risk in respect of shareholder transfers.

Adjusted operating expenses in the period to 30 June 2022 increased by £10 million, mainly in relation to the inclusion of Sandringham.

Other shareholder profit in the six months to 30 June 2022 decreased by £16 million, in the main as a result of the recognition of £15 million reserve in relation to initial expenses on the Future + business.

Retail and Savings (continued)

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

£m	For the six months ended 30 June 2022	2021	For the year ended 31 December 2021
Wealth	**65**	5	41
Heritage	**169**	282	620
of which Annuities	**33**	157	369
of which traditional with-profits	**121**	105	205
Other Retail and Savings	**(8)**	9	(1)
Adjusted operating profit before tax	**226**	296	660

Adjusted operating profit before tax from our Wealth business increased to £65 million (30 June 2021: £5 million) driven by an improvement in the net result from PruFund business to £74 million (30 June 2021: £18 million).

The with-profits shareholder transfer from PruFund business was £76 million (30 June 2021: £53 million) benefiting from upwards unit price adjustments in 2021. Additionally there was a release of £15 million (30 June 2021: £28 million loss) previously recognised as a provision for expense overruns. The provision was recognised in 2021 when lower sales volumes did not allow us to fully absorb the operational fixed costs. This was partially offset by fair value losses on hedges of £16 million (30 June 2021: £7 million).

Heritage adjusted operating profit decreased to £169 million (30 June 2021: £282 million) despite an improved net result from traditional with-profits where adjusted operating profit increased to £121 million (30 June 2021 £105 million) as a result of higher bonus declarations and an increase in claims on personal pensions, as policyholders reach retirement in 2022.

This was offset by a reduction in the annuity margin of £124 million to £33 million for the six months ended 30 June 2022 which is analysed in the following table:

£m	For the six months ended 30 June 2022	2021	For the year ended 31 December 2021
Return on excess assets and margin release	**76**	87	172
Asset trading and portfolio management actions	**26**	4	10
Longevity assumption changes	**—**	—	125
Other	**(69)**	66	62
Annuity margin	**33**	157	369

Recurring sources of earnings from the annuity book, primarily the return on assets held to back capital requirements and the release of the margins in respect of credit risk, mortality and expenses, decreased by £11 million to £76 million (30 June 2021: £87 million).

Asset trading and portfolio management actions have increased to £26 million with the £4 million for the six months ended 30 June 2021 impacted by a loss on property disposals due to the impact on the valuation of the annuity liabilities of £17 million.

Other includes losses on the annuity portfolio arising from differences in the durations of the long-term annuity liabilities and the assets held to back them which have increased by £63 million to £78 million (30 June 2021: £15 million) reflecting a significant increase in yields over H1 2022. The annuity liabilities and the assets that back them are well matched on an IFRS basis but small differences in durations remain. With annuity liabilities' durations being overall shorter than the backing assets, losses occur in a rising rate environment. Additionally, the annuity margin has decreased as a result of one-off benefits in H1 2021 which did not repeat, including a release of the Thematic Review of Annuity Sales Practices (TRASP) provision of £31 million and a change to renewal expense assumptions of £33 million related to the Part VII transfer of certain annuity liabilities within Rothesay Life Plc.

Credit quality of fixed income assets in the annuity portfolio remained strong over the first half of 2022. 98% of the debt securities held by the shareholder annuity portfolio are investment grade and only 19% are BBB. Downgrades experienced in the period have been relatively light, with less than 2% of bonds in the shareholder annuity portfolio subject to a downgrade.

Adjusted operating profit excludes the impact of short term fluctuations in investment return which have led to significant IFRS losses attributable to the Retail and Savings segment in the period. These losses primarily comprise an £817 million loss (30 June 2021: £182 million loss) from fair value movements on surplus assets in the annuity portfolio and a £602 million loss (30 June 2021: £124 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 period. Additionally losses of £123 million (30 June 2021: £50 million) arose on pledged 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 £130 million gain (30 June 2021: £156 million loss) as a result of falls in the UK, US and European equities market. The interest rate swaps and the equity hedges provide some protection to the Solvency II balance sheet however, 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 the overall loss in the period.

Retail and Savings (continued)

Capital generation

The following table shows an analysis of operating capital generation:

£m	For the six months ended 30 June 2022	2021	For the year ended 31 December 2021
Wealth	**88**	18	49
of which with-profits	**96**	27	60
– *In-force*	**106**	50	112
– *New business*	**(10)**	(23)	(52)
of which Other	**(8)**	(9)	(11)
Heritage	**266**	182	378
of which with-profits	**100**	68	142
of which Shareholder annuity and other	**166**	114	236
Other Retail and Savings	**16**	13	32
Underlying capital generation	**370**	213	459
Model improvements	**4**	30	116
Assumption changes	**—**	(2)	18
Management actions and other (incl experience variances)	**54**	50	487
Other operating capital generation	**58**	78	621
Operating capital generation	**428**	291	1,080

During the period 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 the realised losses on equity hedges in the period was £33 million (30 June 2021: £70 million). There is no impact on overall Retail and Savings operating capital generation which has increased by £137 million to £428 million.

Underlying capital generation increased in the six months ended 30 June 2022 to £370 million (30 June 2021: £213 million) with increases in both Wealth and Heritage.

In Wealth, in-force PruFund business generated underlying capital of £106 million an increase of £20 million compared to the six months ended 30 June 2021 after allowing for the methodology change to reallocate £36 million of realised losses on equity hedges 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 of £20 million is primarily as a result of a reduction in the solvency capital requirement. Despite higher new business sales, new business strain reduced to £10 million (30 June 2021: £23 million), driven by the change in the 2021 expense overrun provision.

The capital generated by the Heritage with-profits business was £100 million, comparable to the same period in 2021 after allowing for the £34 million reallocation of the equity hedge impact for the six months ended 30 June 2022 to other operating capital generation.

There also continued to be significant underlying capital generation from the shareholder annuity and other business, contributing £166 million (30 June 2021: £114 million). The underlying capital generation reflects the expected return on surplus assets in the annuity portfolio and is determined based on yields over the previous year. The increase is primarily due to increasing yields over 2021.

Other operating capital generation was £58 million and included a decrease in capital generated by model improvements to £4 million. Management actions and experience variances of £54 million include £93 million in relation to rehypothecation of assets in the annuity portfolio and asset trading, offset by £52 million capital strain from non-market experience. Management actions and other also includes a £22 million benefit in relation to equity hedges, net of the £33 million realised losses reallocated to other operating capital generation in the period.

Risk management statement

Principal risks and uncertainties

The principal risks we are currently facing, and to which we will continue to be exposed, remain broadly unchanged from those detailed in the 2021 Annual Report and Accounts, namely: business environment and market forces; sustainability and ESG; investment performance and risk; financial risks (market, credit, corporate liquidity and longevity); operational risks (including resilience, third party suppliers and technology); change; people; regulatory compliance; and reputational. We also continue to monitor the remaining risk from COVID-19 on our business.

Economic and geopolitical backdrop

Our initial response to geopolitical developments related to the conflict in Ukraine was coordinated by our Central Response Team, with monitoring groups in place comprised of representatives across the business (including Risk and Compliance). We have very limited exposure in aggregate to Russia and Ukraine and our investment teams continue to monitor the geopolitical situation closely. We are maintaining a high state of alert in relation the evolving threat landscape and are not currently seeing any increase in activity targeting M&G plc. We have liaised with our key regulators (the PRA and FCA) and responded to information requests, for example, in relation to our sanctions framework and cyber attacks.

There continues to be considerable economic uncertainty, primarily due to the impacts of the ongoing conflict in Ukraine, fears over the economic outlook (with the Bank of England warning of a sharp economic slowdown) and heightened levels of inflation. However, solvency and liquidity positions remain within risk appetite.

Sustainability and ESG

The integration of our ESG Risk Policy continues to progress, enhancing our ESG control environment. The ESG Risk Policy articulates our ESG risk appetite and sets out key requirements, applicable to all business areas, for the management of ESG risk in a manner consistent with our risk appetite. Our Sustainability Programme actively manages sustainability and ESG risks looking at solutions to manage potential risks such as greenwashing. Risk continues to work with the business to help improve sustainability and ESG risk governance, including the identification and incorporation of ESG risk factors into our general risk management process.

COVID-19

As countries have eased COVID-19 restrictions we have continued to monitor the shorter and longer-term impact of the pandemic on financial and non-financial risks faced by our business. This includes the impact on our colleagues of adapting to hybrid working practices. The potential long-term consequences of the pandemic are assessed and managed through our Risk Management Framework, including our current and emerging risk assessments, risk appetite framework, scenario analysis and risk management of our change agenda. We have identified no material adverse impacts to date.

Statement of Directors' responsibilities

The Directors confirm that these condensed consolidated interim financial statements have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

a. an indication of important events that have occurred during the first six months and their impact on the condensed consolidated set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

b. material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The maintenance and integrity of the M&G plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that might have occurred to the condensed consolidated interim financial statements since they were initially presented on the website.

The Directors of M&G plc are listed in the M&G plc annual report for 31 December 2021, with the exception of the following changes in the period: Edward Braham was appointed on 14 March 2022, Kathryn McLeland was appointed on 3 May 2022, and Dev Sanyal was appointed on 16 May 2022. A list of current Directors is maintained on the M&G plc website: www.mandgplc.com.

By order of the Board:

John Foley
Chief Executive
10 August 2022

Kathryn McLeland
Chief Financial Officer
10 August 2022

Independent review report to M&G plc

Report on the condensed consolidated interim financial statements
Our conclusion

We have reviewed M&G plc's condensed consolidated interim financial statements (the "interim financial statements") in the interim financial report of M&G plc for the 6 month period ended 30 June 2022 (the "period").

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

The interim financial statements comprise:

- the condensed consolidated statement of financial position as at 30 June 2022;
- the condensed consolidated income statement and condensed consolidated statement of comprehensive income for the period then ended;
- the condensed consolidated statement of cash flows for the period then ended;
- the condensed consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the interim financial report of M&G plc have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Basis for our conclusion

We conducted our review in accordance with International Standard on Review Engagements (ISRE) (UK) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

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

We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed. This conclusion is based on the review procedures performed in accordance with this ISRE. However, future events or conditions may cause the Group to cease to continue as a going concern.

Responsibilities for the interim financial statements and the review
Our responsibilities and those of the directors

The interim financial report, including the interim financial statements, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim financial report in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority. In preparing the interim financial report, including the interim financial statements, the directors are responsible for assessing the group'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 to cease operations, or have no realistic alternative but to do so.

Our responsibility is to express a conclusion on the interim financial statements in the interim financial report based on our review. Our conclusion, including our Conclusions relating to going concern, is based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, 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.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants

London

10 August 2022

Condensed consolidated income statement

	Note	For the six months ended 30 June 2022 £m	For the six months ended 30 June 2021 £m	For the year ended 31 December 2021 £m
Gross premiums earned		**3,104**	2,390	4,784
Outward reinsurance premiums		**(239)**	(466)	(1,019)
Earned premiums, net of reinsurance		**2,865**	1,924	3,765
Investment return		**(11,583)**	6,766	12,909
Fee income	4	**506**	490	983
Other income		**10**	27	115
Total revenue, net of reinsurance		**(8,202)**	9,207	17,772
Benefits and claims	10	**6,322**	(6,820)	(3,551)
Outward reinsurers' share of benefit and claims	10	**(135)**	217	(8,480)
Movement in unallocated surplus of the With-Profits Fund	10	**1,825**	(565)	(1,052)
Benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance		**8,012**	(7,168)	(13,083)
Administrative and other expenses	5	**(1,474)**	(1,384)	(2,884)
Movements in third party interest in consolidated funds		**(55)**	(534)	(1,019)
Finance costs	5	**(80)**	(80)	(160)
Total charges, net of reinsurance		**6,403**	(9,166)	(17,146)
Share of profit from joint ventures and associates		**63**	33	81
(Loss)/profit before tax[i]		**(1,736)**	74	707
Tax credit/(charge) attributable to policyholders' returns	6	**411**	(378)	(626)
(Loss)/profit before tax attributable to equity holders		**(1,325)**	(304)	81
Total tax credit/(charge)	6	**691**	(322)	(615)
Less tax (credit)/charge attributable to policyholders' returns		**(411)**	378	626
Tax credit attributable to equity holders	6	**280**	56	11
(Loss)/profit for the period		**(1,045)**	(248)	92
Attributable to equity holders of M&G plc		**(1,051)**	(251)	83
Attributable to non-controlling interests		**6**	3	9
(Loss)/profit for the period		**(1,045)**	(248)	92
Earnings per share:				
Basic (pence per share)	7	**(41.4)**	(9.8)	3.3
Diluted (pence per share)	7	**(41.4)**	(9.8)	3.2

[i] 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.

Condensed consolidated statement of comprehensive income

	For the six months ended 30 June		For the year ended 31 December
	2022	2021	2021
	£m	£m	£m
(Loss)/profit for the period	**(1,045)**	(248)	92
Items that may be reclassified subsequently to profit or loss:			
Exchange movements arising on foreign operations	**12**	(6)	(13)
Other comprehensive income/(loss) on items that may be reclassified subsequently to profit or loss	**12**	(6)	(13)
Items that will not be reclassified to profit or loss:			
Gain on remeasurement of defined benefit pension schemes	**95**	67	71
Tax on remeasurement of defined benefit pension schemes	**(22)**	(18)	(19)
	73	49	52
Add amounts transferred to unallocated surplus of the With-Profits Fund, net of related tax	**(23)**	(5)	(2)
Other comprehensive income on items that will not be reclassified to profit or loss	**50**	44	50
Other comprehensive income for the period, net of related tax	**62**	38	37
Total comprehensive (loss)/income for the period	**(983)**	(210)	129
Attributable to equity holders of M&G plc	**(989)**	(213)	120
Attributable to non-controlling interests	**6**	3	9
Total comprehensive (loss)/income for the period	**(983)**	(210)	129

Condensed consolidated statement of financial position

	Note	As at 30 June 2022 £m	As at 31 December 2021 £m
Assets			
Goodwill and intangible assets		**1,842**	1,615
Deferred acquisition costs		**100**	94
Investment in joint ventures and associates accounted for using the equity method		**446**	469
Property, plant and equipment		**2,534**	2,536
Investment property		**21,891**	19,698
Defined benefit pension asset	9	**93**	38
Deferred tax assets	6	**399**	119
Reinsurance assets	10	**1,467**	1,669
Loans		**4,187**	5,809
Derivative assets		**2,547**	3,373
Equity securities and pooled investment funds		**67,341**	74,069
Deposits		**22,940**	17,633
Debt securities		**70,128**	81,059
Current tax assets	6	**253**	375
Accrued investment income and other debtors		**3,014**	2,647
Assets held for sale[i]		**479**	1,023
Cash and cash equivalents		**5,688**	6,908
Total assets		**205,349**	219,134
Equity			
Share capital		**128**	130
Share premium reserve		**370**	370
Shares held by employee benefit trust		**(78)**	(93)
Treasury shares		**(1)**	(1)
Retained earnings		**15,154**	16,550
Other reserves		**(11,650)**	(11,660)
Equity attributable to equity holders of M&G plc		**3,923**	5,296
Non-controlling interests		**45**	49
Total equity		**3,968**	5,345
Liabilities			
Insurance contract liabilities	10	**55,387**	63,223
Investment contract liabilities with discretionary participation features	10	**79,481**	82,743
Investment contract liabilities without discretionary participation features	10	**12,647**	14,884
Unallocated surplus of the With-Profits Fund	10	**15,094**	16,723
Third party interest in consolidated funds		**13,058**	12,636
Subordinated liabilities and other borrowings	11	**7,906**	8,930
Defined benefit pension liability	9	**—**	84
Deferred tax liabilities	6	**732**	1,157
Current tax liabilities	6	**80**	323
Derivative liabilities		**3,803**	2,689
Lease liabilities		**431**	413
Other financial liabilities		**2,254**	2,882
Provisions		**75**	138
Accruals, deferred income and other liabilities	12	**10,263**	6,964
Liabilities held for sale[i]		**170**	—
Total liabilities		**201,381**	213,789
Total equity and liabilities		**205,349**	219,134

[i] Assets held for sale on the consolidated statement of financial position as at 30 June 2022 includes £123m (year ended 31 December 2021: £127m) of seed capital and £172m of investment property (year ended 31 December 2021: £896m) that are expected to be divested within 12 months. Additionally, as at 30 June 2022 £184m of assets (year ended 31 December 2021: £nil) and £170m of liabilities (year ended 31 December 2021: £nil) held for sale are in relation to the Group's consolidated infrastructure capital private equity vehicles.

Condensed consolidated statement of changes in equity

	Share capital £m	Share premium £m	Shares held by employee benefit trust £m	Treasury shares £m	Retained earnings £m	Other reserves £m	Total equity attributable to equity holders of M&G plc £m	Non-controlling interests £m	Total equity £m
At 1 January 2022	**130**	**370**	**(93)**	**(1)**	**16,550**	**(11,660)**	**5,296**	**49**	**5,345**
(Loss)/profit for the period	—	—	—	—	**(1,051)**	—	**(1,051)**	**6**	**(1,045)**
Other comprehensive income for the period	—	—	—	—	**50**	**12**	**62**	—	**62**
Total comprehensive income for the period	—	—	—	—	**(1,001)**	**12**	**(989)**	**6**	**(983)**
Shares purchased in buy-back[i]	**(2)**	—	—	—	**(85)**	**2**	**(85)**	—	**(85)**
Dividends paid to equity holders of M&G plc	—	—	—	—	**(311)**	—	**(311)**	—	**(311)**
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	**(10)**	**(10)**
Shares distributed by trusts	—	—	**15**	—	**(15)**	—	—	—	—
Vested employee share-based payments	—	—	—	—	**17**	**(17)**	—	—	—
Expense recognised in respect of share-based payments	—	—	—	—	—	**11**	**11**	—	**11**
Tax effect of items recognised directly in equity	—	—	—	—	**(1)**	**2**	**1**	—	**1**
Net (decrease)/increase in equity	**(2)**	—	**15**	—	**(1,396)**	**10**	**(1,373)**	**(4)**	**(1,377)**
As at 30 June 2022	**128**	**370**	**(78)**	**(1)**	**15,154**	**(11,650)**	**3,923**	**45**	**3,968**

[i] On 24 March 2022, the Group announced that, as outlined in its announcement on 8 March 2022, it will commence a share buy-back programme to purchase ordinary shares of 5 pence each up to a maximum consideration of £500m. For the period ended 30 June 2022, £85m shares had been purchased and shares with a nominal value of £2m cancelled, leading to a capital redemption reserve for the same amount.

	Share capital £m	Share premium £m	Shares held by employee benefit trust £m	Treasury shares £m	Retained earnings £m	Other reserves £m	Total equity attributable to equity holders of M&G plc £m	Non-controlling interests £m	Total equity £m
At 1 January 2021	130	370	(117)	(1)	16,853	(11,658)	5,577	8	5,585
(Loss)/profit for the period	—	—	—	—	(251)	—	(251)	3	(248)
Other comprehensive income for the period	—	—	—	—	44	(6)	38	—	38
Total comprehensive income for the period	—	—	—	—	(207)	(6)	(213)	3	(210)
Non-controlling interests arising through business combinations	—	—	—	—	—	—	—	(5)	(5)
Dividends paid to equity holders of M&G plc	—	—	—	—	(310)	—	(310)	—	(310)
Shares distributed by trusts	—	—	22	—	(22)	—	—	—	—
Vested employee share-based payments	—	—	—	—	20	(20)	—	—	—
Expense recognised in respect of share-based payments	—	—	—	—	—	17	17	—	17
Tax effect of items recognised directly in equity	—	—	—	—	20	(1)	19	—	19
Net increase/(decrease) in equity	—	—	22	—	(499)	(10)	(487)	(2)	(489)
As at 30 June 2021	130	370	(95)	(1)	16,354	(11,668)	5,090	6	5,096

Condensed consolidated statement of changes in equity (continued)

	Share capital £m	Share premium £m	Shares held by employee benefit trust £m	Treasury shares £m	Retained earnings £m	Other reserves £m	Total equity attributable to equity holders of M&G plc £m	Non-controlling interests £m	Total equity £m
At 1 January 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	—	—	—	—	50	(13)	37	—	37
Total comprehensive income for the year	—	—	—	—	133	(13)	120	9	129
Non-controlling interests arising through business combinations	—	—	—	—	—	—	—	38	38
Dividends paid to equity holders of M&G plc	—	—	—	—	(466)	—	(466)	—	(466)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	(6)	(6)
Shares distributed by trusts	—	—	24	—	(24)	—	—	—	—
Vested employee share-based payments	—	—	—	—	33	(33)	—	—	—
Expense recognised in respect of share-based payments	—	—	—	—	—	40	40	—	40
Tax effect of items recognised directly in equity	—	—	—	—	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

Condensed consolidated statement of cash flows

	For the six months ended 30 June		For the year ended 31 December
	2022	2021	2021
	£m	£m	£m
Cash flows from operating activities:			
(Loss)/profit before tax	**(1,736)**	74	707
Non-cash and other movements in operating assets and liabilities included in (loss)/profit before tax:			
Investments	**14,298**	(4,430)	(804)
Other non-investment and non-cash assets[i]	**56**	546	10,524
Policyholder liabilities (including unallocated surplus)[i]	**(15,219)**	(36)	(9,846)
Other liabilities (including operational borrowings)	**1,460**	3,588	1,280
Interest income, interest expense and dividend income	**(2,401)**	(2,117)	(4,028)
Other non-cash items[ii]	**1,044**	152	(459)
Operating cash items:			
Interest receipts	**1,269**	1,270	2,321
Interest payments	**(36)**	(57)	(132)
Dividend receipts	**1,240**	1,092	2,066
Tax paid[iii]	**(178)**	(128)	(315)
Net cash flows from operating activities[iv]	**(203)**	(46)	1,314
Cash flows from investing activities:			
Purchases of property, plant and equipment	**(404)**	(452)	(770)
Proceeds from disposal of property, plant and equipment	**1**	44	41
Net cash (paid)/acquired on acquisition of subsidiaries[v]	**(210)**	—	13
Divestment/(investment) in subsidiaries by consolidated private equity vehicles[vi]	**69**	190	250
Net cash flows from investing activities	**(544)**	(218)	(466)
Cash flows from financing activities:			
Interest paid	**(94)**	(93)	(186)
Lease repayments	**(17)**	(22)	(35)
Shares purchased in buy-back	**(85)**	—	—
Dividends paid to equity holders of M&G Plc	**(311)**	(310)	(466)
Dividends paid to non-controlling interests[ii]	**(10)**	(5)	(6)
Net cash flows from financing activities	**(517)**	(430)	(693)
Net (decrease)/increase in cash and cash equivalents	**(1,264)**	(694)	155
Cash and cash equivalents at 1 January	**6,908**	6,776	6,776
Effect of exchange rate changes on cash and cash equivalents	**44**	(15)	(23)
Cash and cash equivalents at end of period	**5,688**	6,067	6,908

[i] 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.

[ii] Dividends paid to non-controlling interests of £5m and £6m have been represented from operating activities to financing activities for the six months ended 30 June 2021 and the year ended 31 December 2021 respectively.

[iii] Tax paid for the six months ended 30 June 2022 includes £56m (30 June 2021: £76m, year ended 31 December 2021: £173m) paid on profit taxable at policyholder rather than shareholder rates.

[iv] 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.

[v] Net cash (paid)/acquired on acquisition of subsidiaries consists of £227m (six months ended 30 June 2021: £nil, year ended 31 December: £0.2m) of cash paid, net of £17m (six months ended 30 June 2021: £nil, year ended 31 December 2021: £13m) cash acquired. Refer to note 2.2 for further information on shareholder acquisitions made in the period.

[vi] Divestment/(investment) in subsidiaries by consolidated private equity vehicles represents the amount paid or received in relation to the purchase or sale of underlying investee companies held by the Group's consolidated private equity vehicles. As at June 2022, £15m (six months ended 30 June 2021: £nil, year ended 31 December 2021: £nil) relates to investments in these vehicles and £84m (six months ended 30 June 2021: £190m, year ended 31 December 2021: £250m) relates to divestments in these vehicles.

1 Basis of preparation and significant accounting policies

1.1 Basis of preparation

The condensed consolidated financial statements for the half year ended 30 June 2022 comprise the condensed consolidated financial statements of M&G plc ('the Company') and its subsidiaries (together referred to as 'the Group'). The condensed consolidated financial statements are unaudited but have been reviewed by the auditors, PricewaterhouseCoopers LLP.

The condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting ('IAS 34'), as adopted by the United Kingdom, and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority. The accounting policies applied in the condensed consolidated financial statements and the judgements made by management in applying them are consistent with those set out in the 2021 consolidated financial statements, except for the new standards, interpretations and amendments that became effective in the current period, as stated below. Additionally the key sources of estimation uncertainty in preparing the condensed consolidated financial statements are the same as those that applied to the consolidated financial statements for the year ended 31 December 2021.

The condensed consolidated financial statements do not include all the information and disclosures required in the Group's 2021 consolidated financial statements. Therefore, these condensed consolidated financial statements should be read in conjunction with the Group's 2021 consolidated financial statements prepared in accordance with UK-adopted international accounting standards (IAS).

The condensed consolidated financial statements are stated in million pounds Sterling, the Group's presentation currency.

These condensed consolidated financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. The Group's 2021 annual report and accounts for the year ended 31 December 2021 were delivered to the Registrar of Companies. The report of the auditors issued by KPMG LLP on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

In preparing the condensed consolidated financial statements the Group has adopted the following standards, interpretations and amendments effective during the period:

- 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

The above interpretations and amendments to standards are not considered to have a material effect on these interim financial statements. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

In May 2017, the IASB issued IFRS 17: Insurance Contracts (IFRS 17) to replace the existing interim standard, IFRS 4 Insurance Contracts. IFRS 17 was subsequently amended in June 2020 and December 2021 and has an effective date of 1 January 2023. In May 2022 the UK Endorsement Board endorsed IFRS 17 including the amendments for use in the UK. The Group intends to adopt the new standard on its mandatory effective date, alongside the adoption of IFRS 9.

Our project to implement IFRS 17 is progressing as we approach the adoption date. However, the Group is still refining its methodology and technical interpretations of the standard for the type of contracts in our business , therefore it is not possible to provide a reliable estimate of its impact on the Group financial statements. We will be continuing over the remainder of 2022 to test and embed the new processes and systems required to implement the standard.

The Group continues to defer the adoption of IFRS 9 to coincide with the adoption of IFRS 17, and the relevant disclosures required by amendments to IFRS 4 to avail this exemption are presented below. 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 as at 30 June 2022, distinguishing those financial assets which have contractual terms that give rise on specified dates to cash flows that are solely payments of principle and interest (SPPI) as defined by IFRS 9.

	Financial assets that pass the SPPI test[i]		All other financial assets, net of derivative liabilities[i]	
	Fair value as at 30 June 2022	Movement in fair value during the period	Fair value as at 30 June 2022	Movement in fair value during the period
Financial assets on the consolidated statement of financial position	**£m**	**£m**	**£m**	**£m**
Loans	**2,220**	**(111)**	**1,921**	**(465)**
Net derivatives	**—**	**—**	**(1,256)**	**(2,565)**
Equity securities and pooled investment funds	**—**	**—**	**67,341**	**(4,776)**
Deposits	**22,940**	**—**	**—**	**—**
Debt securities	**—**	**—**	**70,128**	**(8,064)**
Accrued investment income and other debtors	**3,014**	**—**	**—**	**—**
Cash and cash equivalents	**5,688**	**—**	**—**	**—**
Total financial assets, net of derivative liabilities	**33,862**	**(111)**	**138,134**	**(15,870)**

[i] Financial assets classified as held for trading or that are managed and whose performance is evaluated on a fair value basis do not require an SPPI test to be performed. These are reported in the "All other financial assets" column of the table above.

1 Basis of preparation and significant accounting policies (continued)

1.1 Basis of preparation (continued)

	Financial assets that pass the SPPI test[i]		All other financial assets, net of derivative liabilities[i]	
	Fair value as at 31 December 2021	Movement in fair value during the period	Fair value as at 31 December 2021	Movement in fair value during the period
Financial assets on the consolidated statement of financial position	£m	£m	£m	£m
Loans	2,316	(23)	3,560	(149)
Net derivatives	—	—	684	(56)
Equity securities and pooled investment funds	—	—	74,069	9,298
Deposits	17,633	—	—	—
Debt securities	—	—	81,059	(2,732)
Accrued investment income and other debtors	2,647	—	—	—
Cash and cash equivalents	6,908	—	—	—
Total financial assets, net of derivative liabilities	29,504	(23)	159,372	6,361

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 twelve months from the date of approval of the condensed consolidated financial statements.

To satisfy themselves of the appropriateness of the use of the going concern assumption in relation to the condensed 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 £1,500m revolving credit facility and the management actions that could be used to manage liquidity.

In addition, the Directors also gave particular attention to the solvency projections of the Group under a base scenario and its sensitivity to various individual economic stresses and tested the resilience of the balance sheet to adverse scenarios using reverse stress testing.

The impact of the following individual stresses on solvency were considered as part of the assessment:

- 20% fall in equity prices
- 20% fall in property prices
- (50bps) parallel shift in nominal yields
- 20% of the credit portfolio downgrading by one full letter
- +100bps spread widening (A-rated assets)

The results of the assessment demonstrated the ability of the Group to meet all obligations and future business requirements for the foreseeable future. In addition, the assessment demonstrated that the Group was able to remain above its regulatory solvency requirements in a stressed scenario.

For this reason, the Directors continue to adopt the going concern basis in preparing the condensed consolidated financial statements.

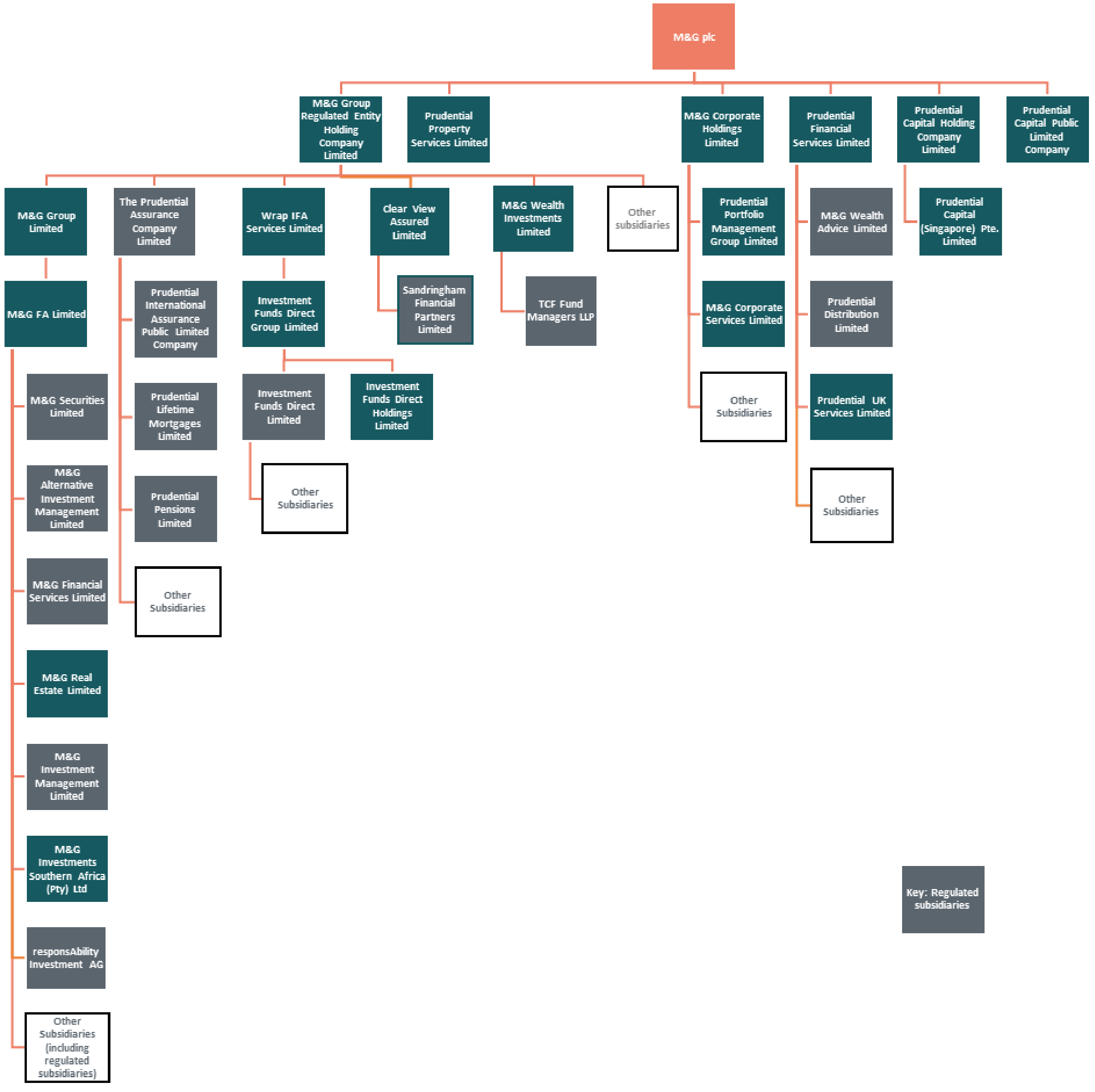
Presentation of risk and capital management disclosures

We have provided additional disclosures relating to the nature and extent of certain financial risks and capital management in the Supplementary Information section of this report, which do not form part of the independent review performed by PricewaterhouseCoopers LLP.

2 Group structure and products

2.1 Group composition

The following diagram is an extract of the Group structure at 30 June 2022 and gives an overview of the composition of the Group. M&G plc is the holding company of the Group.



2 Group structure and products (continued)

2.2 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 brings to M&G a well-established national financial services advisory business with around 180 advisory partners working on behalf of over 10,000 customers 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 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:	
Tradename	**7**
Customer-related	**15**
Deferred tax on assets not on balance sheet	**(5)**
Goodwill	**54**

The goodwill of £54m 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 tradename 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 was £11m and £3m 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 Investment 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 retains call options and the seller retains put options over the remaining holding where the exercise price is fixed at inception. For accounting purposes, 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. The Group expects to acquire the remaining shares in due course.

The full purchase price allocation has yet to be finalised and will be disclosed in the financial statements for the year ended 31 December 2022. A provisional amount of £116m is included in Goodwill and intangible assets on the consolidated statement of financial position in relation to the acquisition of responsAbility in the period.

2 Group structure and products (continued)

2.2 Corporate transactions (continued)

As at the acquisition date the consideration and net assets acquired and resulting goodwill were as follows:

	£m
Total 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)**
Goodwill	**116**

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, Global ESG Themes, focussing on investing globally and incorporating ESG factors in the investment process.

The acquisition was structured as follows:

- 99.9999% of the membership interest was acquired by M&G Wealth Investments Limited (M&G WIL), 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 to be paid on the satisfactory completion of various activities linked to transition by the previous owners, and is expected to be paid in November 2022. The purpose of the deferred consideration is 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 was recognised.

2.2.4 Other goodwill

In addition to the goodwill arising from acquisitions disclosed above a further amount of £17m of goodwill was recognised on acquisitions in the with-profits sub-fund within the period.

The opening balance of goodwill at 1 January 2022 was £1,391m. Total additions during the period were £203m and foreign exchange rate losses of £2m. The closing balance of goodwill at 30 June 2022 is £1,592m, including provisional amounts for the responsAbility acquisition.

None of the goodwill recognised is expected to be deductible for income tax purposes.

2.3 Insurance and investment products

A full description of the main contract types written by the Group's insurance entities can be found in the Annual Report and Accounts 2021.

3 Segmental analysis

The Group's operating segments are defined and presented in accordance with IFRS 8: Operating Segments on the basis of the Group's management reporting structure and its financial management information. The Group's primary reporting format is by customer type, with supplementary information being given by product type. The Chief Operating Decision Maker for the Group is the Group Executive Committee.

The financial management information was updated during second half of 2021 to reflect a change in management structure. The Group's operating segments were revised as a result. Our previous operating segments, "Savings and Asset Management" and "Heritage", were replaced with two new operating segments: "Asset Management" and "Retail and Savings". Comparatives for the six months ended 30 June 2021 are re-presented on the new segment basis.

3.1 Operating segments

Asset Management

The Group's investment management capability is offered to both wholesale customers and institutional clients. The Group's wholesale customers invest through either UK domiciled Open Ended Investment Companies (OEICs) or Luxembourg domiciled Sociétés d'Investissement à Capital Variable (SICAVs) and have access to a broad range of actively managed investment products, including Equities, Fixed Income, Multi-Asset and Real Estate. The Group serves these customers through its many business-to-business relationships both in the UK and overseas, which include independent financial advisers, high-street banks and wealth managers. The Group's institutional investors include pension funds, insurance companies and banks from around the world, who invest through segregated mandates and pooled funds into a diverse range of Fixed Income and Real Estate investment products and services.

The 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)

3.1 Operating segments (continued)

Retail and Savings

Our Retail and Savings operating segment includes M&G Wealth, Heritage, 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 customers including through the wrap platform. These products are distributed to customers through 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.

The majority of the Group's products that give access to the UK PruFund investment proposition are included in M&G Wealth. The UK PruFund investment proposition gives customers access to savings contracts with smoothed investment returns and a wide choice of investment profiles. Unlike the conventional and accumulating with-profits contracts in the Heritage business, no regular or final bonuses are declared. Instead, policyholders participate in profits by means of an increase in their investment, which grows in line with an expected growth rate.

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 customers but may accept further contributions from existing policyholders. The annuity contracts include: level annuities, which provide a fixed annuity payment; fixed increase annuities, which incorporate a periodic automatic fixed increase in annuity payments; and inflation-linked annuities, which incorporate a periodic increase based on a defined inflation index. Some inflation-linked annuities have minimum and/or maximum increases relative to the corresponding inflation index.

The life products in Heritage are primarily whole of life assurance, endowment assurances, term assurance contracts, lifetime mortgages, income protection, and critical illness products. Investment products include unit-linked contracts and the Prudential bond offering, which mainly consists of single-premium-invested whole of life policies, where the customer has the option of taking ad-hoc withdrawals, regular income or the option of fully surrendering their bond.

Some of the Group's Heritage products written through conventional and accumulating with-profits contracts, in the PAC with-profits sub-fund, provide returns to policyholders through "regular" and "final" bonuses that reflect a smoothed investment return.

The Heritage business includes the closed Scottish Amicable Insurance Fund (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 of the 31 December 2021 Annual Report and Accounts.

Other Retail and Savings

Our savings businesses based in Ireland (Prudential International Assurance Limited) 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 customers and operating costs for the business including overheads, expenses required to meet regulatory requirements and regular business development/restructuring and other costs. Costs associated with fundamental 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[3]: 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.

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.

[3] These cash flow hedges do not constitute hedge accounting arrangements under IAS 39.

3 Segmental analysis (continued)

3.2 Adjusted operating profit before tax methodology (continued)

Certain adjustments that are considered to be non-recurring or strategic, or due to short-term movements not reflective of longer-term performance are made to IFRS profit or loss before tax. Adjustments are in respect of short-term fluctuations in investment returns, costs associated with fundamental Group-wide restructuring and transformation, profit or loss arising on corporate transactions, profit or 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 held solely to optimise the Solvency II capital position.
iii. Total fair value movements on surplus assets backing the shareholder annuity portfolio, and the impact of short-term credit risk provisioning and experience variances over the period which are not reflective of the longer-term performance of the business, specifically:

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

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

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

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 merger and transformation. 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 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 six months ended 30 June 2022			
	Asset Management £m	Retail and Savings £m	Corporate Centre £m	Total £m
Fee based revenues[i]	503	150	—	653
Annuity margin	—	33	—	33
With-profits shareholder transfer net of hedging and other gains/(losses)[ii]	—	195	—	195
Adjusted operating income	**503**	**378**	**—**	**881**
Adjusted operating expenses	(367)	(152)	(42)	(561)
Other shareholder loss	(4)	—	(126)	(130)
Adjusted operating profit attributable to non-controlling interests	(8)	—	—	(8)
Adjusted operating profit/(loss) before tax	**124**	**226**	**(168)**	**182**
Short-term fluctuations in investment returns[iv]	(8)	(1,440)	—	(1,448)
Amortisation of intangible assets acquired in business combinations	(3)	—	—	(3)
Restructuring costs[v]	(29)	(36)	1	(64)
IFRS profit/(loss) before tax and non-controlling interests attributable to equity holders	**84**	**(1,250)**	**(167)**	**(1,333)**
IFRS profit attributable to non-controlling interests	8	—	—	8
IFRS profit/(loss) before tax attributable to equity holders	**92**	**(1,250)**	**(167)**	**(1,325)**

[i] Of the fee-based revenues for the six months ended 30 June 2022 £161m (30 June 2021: £151m, year ended 31 December 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 4 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] For the six months ended 30 June 2021 this includes the share of profit from M&G Investments Southern Africa Ltd (MGSA, formerly known as PPMSA) which has been consolidated from July 2021 following the acquisition of a controlling stake.

[iv] Market conditions have led to significant losses from short-term fluctuations in investment returns for the first six months of 2022. These losses primarily comprise an £817m loss (30 June 2021: £182m loss) from fair value movements on surplus assets in the annuity portfolio and a £602m loss (30 June 2021: £124m 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 £123m (30 June 2021: £50m) 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 £130m gain (30 June 2021: £156m loss) as a result of falls in the UK, 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 incurred in the analysis of administrative and other expenses in Note 5 which include costs allocated to the Policyholder. In the six months to 30 June 2022 restructuring and other costs include £33m (30 June 2021: £10m, year ended 31 December 2021: £48m) in relation to transformation of the business, £14m (30 June 2021: £53m, year ended 31 December 2021: £48m) in respect of our future ways of working and associated changes to our office space and £17m (30 June 2021: £21m, year ended 31 December 2021: £45m) of costs in relation to the integration of the M&G Wealth platform business. In the six months ended 30 June 2021 and year ended 31 December 2021 the cost for future ways of working and associated changes to our office space included an impairment of £29m which is presented in impairment of property, plant and equipment in the analysis of administrative and other expenses in Note 5.

3 Segmental analysis (continued)

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

	For the six months ended 30 June 2021			
	Asset Management £m	Retail and Savings £m	Corporate Centre £m	Total £m
Fee based revenues[i]	465	142	—	607
Annuity margin	—	157	—	157
With-profits shareholder transfer net of hedging and other gains/(losses)[ii]	—	123	—	123
Adjusted operating income	465	422	—	887
Adjusted operating expenses	(326)	(142)	(48)	(516)
Other shareholder (loss)/profit	5	16	(68)	(47)
Share of profit from joint ventures and associates[iii]	6	—	—	6
Adjusted operating profit attributable to non-controlling interests	(3)	—	—	(3)
Adjusted operating profit/(loss) before tax	147	296	(116)	327
Short-term fluctuations in investment returns[iv]	(20)	(529)	—	(549)
Profit on disposal of businesses and corporate transactions	—	—	—	—
Amortisation of intangible assets acquired in business combinations	—	—	—	—
Restructuring costs[v]	(23)	(31)	(31)	(85)
IFRS profit/(loss) before tax and non-controlling interests attributable to equity holders	104	(264)	(147)	(307)
IFRS profit attributable to non controlling interests	3	—	—	3
IFRS profit/(loss) before tax attributable to equity holders	107	(264)	(147)	(304)

	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 (loss)/profit	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 of intangible assets acquired in business combinations	(4)	—	—	(4)
Restructuring costs[v]	(51)	(67)	(28)	(146)
IFRS profit/(loss) before tax and non-controlling interests attributable to equity holders	316	35	(282)	69
IFRS profit attributable to non controlling interests	12	—	—	12
IFRS profit/(loss) before tax attributable to equity holders	328	35	(282)	81

The Group has a widely diversified customer base. There are no customers whose revenue represents greater than 10% of fee-based revenue. Each reportable segment reports adjusted operating income as its measure of revenue. Fee based revenues represent 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. The impact of changes in the expense overrun provision, whereby operational fixed costs are not fully absorbed by new business sales is also included in this line item.

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. Share of profit from joint ventures and associates represents the Group's share of the profits of MGSA, which was accounted for under the equity method until its acquisition on 4 July 2021.

4 Fee income

The following table disaggregates management fee revenue by segment:

	For the six months ended 30 June[i]		For the year ended 31 December
	2022	2021	2021
	£m	£m	£m
Management fees	**433**	435	860
Rebates	**(13)**	(15)	(28)
Performance fees and carried interest	**11**	5	18
Total Asset Management fee income	**431**	425	850
Investment contracts without discretionary participation features	**22**	24	50
Platform fees	**17**	17	34
Advice fees	**36**	24	49
Total Retail and Savings fee income	**75**	65	133
Total fee income	**506**	490	983

[i] Comparatives for the six months ended 30 June 2021 are re-presented on the new segment basis.

5 Administrative and other expenses

	For the six months ended 30 June		For the year ended 31 December
	2022	2021	2021
	£m	£m	£m
Staff and employment costs[i]	**446**	428	731
Acquisition costs incurred:			
Insurance contracts	**60**	63	113
Other contracts	**7**	16	29
Acquisition costs deferred:			
Insurance contracts	**(4)**	(5)	(8)
Other contracts	**(5)**	(1)	(6)
Amortisation of deferred acquisition costs:			
Insurance contracts	**3**	4	6
Other contracts	**2**	2	7
Impairment of deferred acquisition costs	**—**	—	4
Depreciation of property, plant and equipment	**71**	55	123
Impairment of property, plant and equipment[ii]	**45**	77	102
Amortisation of intangible assets	**15**	12	25
Restructuring costs	**75**	77	193
Interest expense	**57**	55	161
Commission expense	**95**	98	200
Investment management fees	**72**	97	165
Property-related costs	**79**	87	192
Other expenses[i]	**456**	319	847
Total administrative and other expenses	**1,474**	1,384	2,884

[i] For the six months ended 30 June 2021 costs of £40m have been reallocated from Other expenses to Staff and employment costs to better reflect the nature of these costs.

[ii] Includes impairment of certain property, plant and equipment held by the Group's infrastructure capital private equity vehicles of £45m (30 June 2021: £48m, year ended 31 December 2021: £73m). For the six months ended 30 June 2021 and year ended 31 December 2021 also includes impairment recognised in respect of our future ways of working of £29m included in 'restructuring and other costs' within the Segmental Analysis in Note 3.

In addition to the interest expense shown above of £57m (30 June 2021: £55m, year ended 31 December 2021: £161m), the interest expense incurred in respect of subordinated liabilities for the six months ended 30 June 2022 was £80m (30 June 2021: £80m, year ended 31 December 2021: £160m). This is shown as finance costs in the condensed consolidated income statement. Total finance costs incurred for the six months ended 30 June 2022 were £137m (30 June 2021: £135m, year ended 31 December 2021: £321m).

6 Tax

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

6.1.1 Income statement tax (credit)/charge

	For the six months ended 30 June		For the year ended 31 December
	2022	2021	2021
	£m	£m	£m
Total current tax	**59**	190	402
Total deferred tax	**(750)**	132	213
Total tax (credit)/charge	**(691)**	322	615

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

The loss before tax reflected in the condensed consolidated income statement for the 6 months ended 30 June 2022 of £1,325m (30 June 2021: £304m loss) comprises the pre-tax result attributable to equity holders and pre-tax result attributable to policyholders of unit-linked and with-profits funds and unallocated surplus of the With-Profits Fund. This is the formal measure of profit or loss before tax 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 IAS 12. Consequently, this measure of profit or loss before all taxes is not representative of pre-tax profits attributable to equity holders.

The tax charge attributable to policyholder returns is removed from the Group's total profit or loss before tax in arriving at the Group's profit or loss before tax attributable to equity holders. As the net of tax profits attributable to policyholders is zero, the Group's pre-tax profit attributable to policyholders is an amount equal and opposite to the tax charge attributable to policyholders included in the total tax charge.

	For the six months ended 30 June						For the year ended 31 December		
	2022			2021			2021		
	Equity holders	**Policyholders**	**Total**	Equity holders	Policyholders	Total	Equity holders	Policyholders	Total
	£m	**£m**	**£m**	£m	£m	£m	£m	£m	£m
(Loss)/profit before tax	**(1,325)**	**(411)**	**(1,736)**	(304)	378	74	81	626	707
Tax credit/(charge)	**280**	**411**	**691**	56	(378)	(322)	11	(626)	(615)
(Loss)/profit for the period	**(1,045)**	**—**	**(1,045)**	(248)	—	(248)	92	—	92

6.1.3 Equity holders effective tax rate

The equity holders tax benefit for the six months ended 30 June 2022 was £280m (30 June 2021: tax benefit of £56m) representing an effective tax rate of 21.1% (30 June 2021: 18.4%). The equity holders' effective tax rate of 21.1% was higher than the UK statutory rate of 19% (30 June 2021: 19%), primarily due to the beneficial impact of recognising deferred tax assets on losses carried forward on 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 detrimental impacts arising from the non-recognition of deferred tax assets on other UK tax losses carried forward incurred during the period together with non-deductible expenses.

6.1.4 Factors that may impact the future tax rate

The majority of the Group's profits are generated in the UK. Taking into account recurring tax adjusting items, the underlying effective tax rate for equity holders' portion of profits is expected to be marginally higher than the statutory rate in the UK. The rate of UK corporation tax increases to 25% with effect from 1 April 2023, consequentially, there will be an increase to our effective tax rate for periods from 2023 onwards. The Group has unused tax losses carried forward in relation to UK capital losses of £468m, on which no deferred tax is recognised. In addition, the Group also has current year tax losses carried forward of £179m on which no deferred tax asset has been recognised. Should appropriate taxable profits arise in future periods in which these losses may be utilised it will result in tax benefits thereby reducing the future effective tax rate in the relevant periods.

During late 2021, the 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 OECD published 'Global Anti-Base Erosion Model Rules (Pillar Two)' ('model rules'). The plan follows a Two-Pillar framework which sets out the principles of an ambitious 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. During the period, the Group was heavily engaged in the consultations with the UK Government through Industry bodies. For Pillar One purposes, the Group is not expected to be within the scope of the rules due to the exclusion for regulated entities and/or beneath the scoping thresholds. For Pillar Two, 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 final scoping and basis of enacted legislation and the impact on the insurance and asset management industries, in particular, treatment of investment in fund structures and policyholder attributes. The Group continues to engage with the UK Government through consultation following publication of draft legislation in July 2022.

6 Tax (continued)

6.2 Current tax assets and liabilities

	Current tax assets		Current tax liabilities	
	As at 30 June	As at 31 December	**As at 30 June**	As at 31 December
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Corporation tax	**224**	347	**(23)**	(264)
Other taxes	**29**	28	**(57)**	(59)
Total	**253**	375	**(80)**	(323)

PAC is the lead litigant in a combined group action against HM Revenue and Customs ('HMRC') concerning the correct historical tax treatment applying to dividends received from overseas portfolio investments of its with-profits fund.

In February 2018 the Supreme Court heard HMRC's appeal against the earlier Court of Appeal decision in PAC's favour. The decision of the Supreme Court released in July 2018 upheld the main point in 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. This work, to date, has led to a reduction in the estimate for policyholder tax credit recoverable during 2019 and 2021 and the estimate of interest receivable.

As at 30 June 2022, PAC has recognised a total policyholder tax credit of £114m (30 Dec 2021: £114m) in respect of its claim against HMRC. Of this amount, £40m has been paid by HMRC leaving a tax recoverable balance of £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 delayed. It is now expected the issue will be finalised in the second half of 2022 at which point PAC should receive full and final payment.

6.3 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 only to the extent it is considered probable, based on all available evidence, 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.

	For the six months ended 30 June	For the year ended 31 December
	2022	2021
	£m	£m
Unrealised losses on investments	**(779)**	(1,145)
Life tax transitional adjustments	**(13)**	(26)
Other short term timing differences	**154**	113
Deferred acquisition costs	**40**	39
Defined benefit pensions	**(58)**	(40)
Capital allowances	**(15)**	(12)
Tax losses carried forward	**322**	13
Share-based payments and deferred compensation	**16**	20
Net deferred tax liability	**(333)**	(1,038)
Assets	**588**	273
Liabilities	**(921)**	(1,311)
Net deferred tax liability	**(333)**	(1,038)

The amounts disclosed for deferred tax assets and liabilities above are different from those disclosed on the consolidated statement of financial position as the above 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.

The net deferred tax liability at 30 June 2022 of £333m has reduced by £705m during the period from £1,038m at 31 December 2021. The reduction is predominantly due to a decrease of deferred tax liability arising on unrealised losses in the period together with an increase in the recognition of deferred tax assets on carry forward tax losses of £309m. The deferred tax asset on losses carried forward of £322m relates wholly to PAC. The movement in the period is predominantly a direct impact of the current period pre-tax result. The losses carried forward comprise of capital losses, excess expenses, trade losses and shareholder fund losses. A deferred tax asset has been recognised in full on the excess expenses, trade losses and shareholder losses and a proportion of the capital losses on the basis that the Group considers it is probable that sufficient future taxable profits and UK capital gains will be available against which these losses can be utilised. It is estimated the losses on which deferred tax assets have been recognised will be utilised in less than 10 years. The deferred tax asset on losses is measured at the tax rates that are expected to apply to the period when the asset is realised.

6 Tax (continued)

6.3 Deferred tax assets and liabilities continued

6.3.1 Unrecognised deferred tax

At the end of the reporting period, the Group has unused tax losses of £686m (2020: £547m) and temporary differences of £2m (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 £490m (2021: £502m) and current period UK tax losses of £179m (2021: £nil). No deferred tax asset is recognised on these losses as it is considered not probable that future taxable UK capital gains or other appropriate profits will be available against which they can be utilised. Under UK law, capital losses and trade losses can be carried forward indefinitely.

7 Earnings per share

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 earnings per share is based on the potential future shares in issue resulting from exercise of options under the various share-based payment schemes in addition to the weighted average ordinary shares in issue.

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

	For the six months ended 30 June		For the year ended 31 December
	2022	2021	2021
	£m	£m	£m
(Loss)/profit attributable to equity holders of M&G plc	**(1,051)**	(251)	83

	For the six months ended 30 June		For the year ended 31 December
	2022	2021	2021
	Millions	Millions	Millions
Weighted average number of ordinary shares outstanding	**2,539**	2,552	2,542
Dilutive effect of share options and awards	**—**	—	33
Weighted average number of diluted ordinary shares outstanding	**2,539**	2,552	2,575

	For the six months ended 30 June		For the year ended 31 December
	2022	2021	2021
	Pence per share	Pence per share	Pence per share
Basic (loss)/earnings per share	**(41.4)**	(9.8)	3.3
Diluted (loss)/earnings per share	**(41.4)**	(9.8)	3.2

8 Dividends and capital return

	For the six months ended 30 June 2022		For the six months ended 30 June 2021		For the year ended 31 December 2021	
	Pence per share	£m	Pence per share	£m	Pence per share	£m
Dividends relating to reporting period:						
First interim dividend - Ordinary	**6.2**	**154**	6.1	156	6.1	156
Second interim dividend - Ordinary	**—**	**—**	—	—	12.2	311
Total	**6.2**	**154**	6.1	156	18.3	467
Dividends paid in reporting period:						
Prior year's second interim dividend - Ordinary	**12.2**	**311**	12.2	310	12.2	310
First interim dividend - Ordinary	**—**	**—**	—	—	6.1	156
Total		**311**		310		466

Subsequent to 30 June 2022, the Board has declared a first interim dividend for 2022 of 6.2 pence per ordinary share, an estimated £154m in total. The dividend is expected to be paid on 29 September 2022 and will be recorded as an appropriation of retained earnings in the financial statements at the time that it is paid.

On 24 March 2022, the Group announced that, as outlined in its announcement on 8 March 2022, it will commence a share buy-back programme to purchase ordinary shares of 5 pence each up to a maximum consideration of £500m. For the period ended 30 June 2022, £85m shares had been purchased and shares with a nominal value of £2m cancelled and recognition of a £2m capital redemption reserve.

9 Defined benefit pension schemes

The Group operates three defined benefit pension schemes. The largest defined benefit scheme as at 30 June 2022 is the Prudential Staff Pension Scheme (PSPS), which accounts for 82% (31 December 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 (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 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 30 June 2022 the SASPS and M&GGPS schemes are in surplus based on the IAS 19 valuation. Deducted from the M&GGPS surplus, on an IAS 19 basis, are investments in insurance policies issued by Prudential Pensions Limited, a subsidiary of the Group, through which it invests in certain pooled funds. Under IAS 19, non-transferable insurance policies issued by a related party do not qualify as plan assets.

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:

	As at 30 June 2022			
	PSPS £m	SASPS £m	M&GGPS £m	Total £m
Fair value of plan assets	**5,716**	**745**	**545**	**7,006**
Present value of defined benefit obligation	**(4,825)**	**(681)**	**(393)**	**(5,899)**
Effect of restriction on surplus	**(871)**	**—**	**—**	**(871)**
Net economic pension surplus[i]	**20**	**64**	**152**	**236**
Eliminate group issued insurance policies	**—**	**—**	**(143)**	**(143)**
Net total pension surplus	**20**	**64**	**9**	**93**

	As at 30 June 2022			
	PSPS £m	SASPS £m	M&GGPS £m	Total £m
Attributable to:				
Shareholder-backed business	**6**	**38**	**9**	**53**
With-Profits Fund	**14**	**26**	**—**	**40**
Net total pension surplus	**20**	**64**	**9**	**93**

[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.

9 Defined benefit pension schemes (continued)

	As at 31 December 2021			
	PSPS	SASPS	M&GGPS	Total
	£m	£m	£m	£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 total pension surplus/(deficit)	38	(50)	(34)	(46)

	As at 31 December 2021			
	PSPS	SASPS	M&GGPS	Total
	£m	£m	£m	£m
Attributable to:				
Shareholder-backed business	11	(30)	(34)	(53)
With-Profits Fund	27	(20)	—	7
Net total pension surplus	38	(50)	(34)	(46)

10 Policyholder liabilities, unallocated surplus, and reinsurance

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

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

10.1.1 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. Non-profit business written in the With-Profits Fund is valued consistently with equivalent business written in shareholder-backed funds, and profit on this business which has accrued to policyholders is included as part of the with-profits contract liability. No policyholder liability is held in respect of future enhancements to with-profits liabilities from non-profit business.

The with-profits contracts are a combination of insurance and investment contracts with discretionary participation features, as defined by IFRS 4. The realistic basis requires the value of with-profits policyholder liabilities to be calculated as the sum of:

i. A with-profits benefits reserve (WPBR)
ii. Future policy-related liabilities (FPRL)

The WPBR is primarily based on the retrospective calculation of accumulated asset shares with adjustments to reflect future policyholder benefits and other charges and expenses. Asset shares broadly reflect the policyholders' share of the With-Profits Fund assets attributable to their policies. For certain classes of business, the 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 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 SME's 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 was significantly higher than previous years' as a result of the COVID-19 pandemic. Therefore, no weight has been given to 2020 experience in calibrating mortality assumptions.

At 30 June 2022, there are no significant external reinsurance arrangements in place in respect of the With-Profits Fund's liabilities.

10 Policyholder liabilities, unallocated surplus, and reinsurance (continued)

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

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.

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.

10.1.2 Unit-linked business

For unit-linked contracts, the attaching liability reflects the unit value obligation and, in the case of contracts with significant insurance risk which are therefore classified as insurance contracts, allowance for expense, persistency, and mortality risk. The latter component 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 set for maintenance expenses, the unit growth rate and the valuation interest rate. The valuation interest rate is derived from the yields of assets representative of the returns that will be earned on the assets backing these liabilities.

For those contracts where the level of insurance risk is insignificant, the assets and liabilities arising under the contracts are distinguished between those that relate to the financial instrument liability, and the deferred acquisition costs and deferred income that relate to the component of the contract that relates to investment management. Deferred acquisition costs and deferred income are recognised consistent 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.

10.1.3 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 key assumptions used to calculate the policyholder liability in respect of annuity business are as follows:

Mortality

Mortality assumptions for annuity business are set in light of recent population and internal experience, with an allowance for expected future mortality improvements. Given the long-term nature of annuity business, annuitant mortality remains a significant assumption in determining policyholder liabilities. The assumptions used reference recent population mortality data, with specific risk factors applied on a per policy basis to reflect the features of the Group's portfolio.

10 Policyholder liabilities, unallocated surplus, and reinsurance (continued)

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

No changes have been made to mortality assumptions in the six months ended 30 June 2022. When we set our assumptions during 2021 we adopted a stronger than default calibration of the CMI 2019 model to reflect our best estimate of future trends, including the assumed impact of COVID-19 on various mortality drivers. The mortality improvement assumptions used are summarised in the table below; the assumptions include an A-parameter (which adjusts initial rates in the CMI projections) of 0.45%, with other assumptions reflecting the core CMI projection.

Period ended	Model version	Long-term improvement rate [i]	Smoothing parameter (Sk) [ii]
30 June 2022	**CMI 2019**	**For males: 2.25% pa** **For females: 2.00% pa**	**For males: 7.50** **For females: 8.00**
31 December 2021	CMI 2019	For males: 2.25% pa For females: 2.00% pa	For males: 7.50 For females: 8.00

[i] As at 30 June 2022 and 31 December 2021, the long-term improvement rates shown reflected a 0.5% increase to all future improvement rates as a margin for prudence.

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

An increase in mortality rates was observed over 2020 due to the COVID-19 pandemic and continued in to 2021. Higher mortality experience may be expected to continue to some extent over the short-term, particularly in relation to the annuitant population which has a higher average age than the non-annuitant population. However, this remains uncertain and the longer-term implications for mortality rates amongst the annuitant population are unknown at this stage. For the purpose of calibrating current mortality and improvement rates, zero weight has been given to 2020 experience, in line with broader industry approach. This is an area that will continue to be monitored by the Group and it is expected that this will be revisited ahead of the year ending 31 December 2022.

The mortality assumptions for in-force vested annuities also cover annuities in deferment.

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 allowance.

The credit risk allowance for the Group's shareholder-backed annuity business as at 30 June 2022 was 42 bps per annum (31 December 2021: 44 bps) corresponding to a net of reinsurance reserve of £501m (31 December 2021: £727m). For the annuity business written in the With-Profits Fund, this amount was 38 bps (31 December 2021: 40 bps) corresponding to a net of reinsurance reserve of £216m (31 December 2021: £312m). The decrease in net of reinsurance reserve is primarily due to the increase in yields since 31 December 2021.

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.

Sensitivity

The sensitivity of IFRS profit or loss after tax to changes in the above assumptions, as at 31 December 2021 is shown in Note 33.2 of the Annual Report and Accounts 2021. There have been no changes in the Group's non-economic assumptions, including the longevity assumptions, since 31 December 2021. Economic assumptions, including tax have been updated to reflect prevailing market conditions at 30 June 2022. There have been no fundamental changes to the Group's methodology or estimation techniques which would change the nature of the risk profile and the degree of sensitivity to reasonably possible changes in these assumptions previously disclosed except that sensitivities to the credit default/downgrade allowance and to further changes in interest rates for annuities have reduced at 30 June 2022 due to the increase in interest rates over the period which has reduced the fair value of surplus assets.

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

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

10 Policyholder liabilities, unallocated surplus, and reinsurance (continued)

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

		Shareholder-backed funds and subsidiaries				
	With-profits sub-funds[i]	Unit-linked liabilities	Annuity and other long-term business	Total	Reinsurance[ii]	Net total
	£m	£m	£m	£m	£m	£m
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	—	—		
Investment-related items and other movements[iv]	8,960	1,173	3	10,136		
Foreign exchange differences	(80)	(56)	—	(136)		
At 31 December 2021/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	**2,991**	**456**	**66**	**3,513**		
Surrenders	**(3,263)**	**(1,059)**	**(38)**	**(4,360)**		
Maturities/deaths	**(2,222)**	**(294)**	**(624)**	**(3,140)**		
Net flows	**(2,494)**	**(897)**	**(596)**	**(3,987)**		
Shareholders' transfers post-tax	**(183)**	**—**	**—**	**(183)**		
Switches	**(23)**	**23**	**—**	**—**		
Investment-related items and other movements[iv]	**(6,118)**	**(2,018)**	**(2,743)**	**(10,879)**		
Foreign exchange differences	**36**	**49**	**—**	**85**		
As at June 2022	**129,847**	**16,970**	**15,792**	**162,609**	**(1,292)**	**161,317**
Comprising:						
Insurance contract liabilities	**35,305**	**4,355**	**15,727**	**55,387**		
Investment contract liabilities with DPF	**79,446**	**—**	**35**	**79,481**		
Investment contract liabilities without DPF	**2**	**12,615**	**30**	**12,647**		
Unallocated surplus of the with-profits fund	**15,094**	**—**	**—**	**15,094**		

[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 30 June 2022 includes Reinsurance assets of £1,467m net of longevity swap liabilities of £175m (31 December 2021: £174m) included in Accruals, deferred income and other liabilities on the consolidated statement of financial position and in Note 12, but previously presented in Reinsurance assets. For the comparative periods all reinsurance is presented in Reinsurance assets.

[iii] Corporate transactions 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] Investment related items and other movements include the impact of assumption changes which were £nil for the six months ended 30 June 2022. For the shareholder-backed business, assumption changes decreased policyholder liabilities by £347m for the year ended 31 December 2021. For the With-Profits Fund, the impact of assumption changes for the year ended 31 December 2021 was a £50m decrease.

10 Policyholder liabilities, unallocated surplus, and reinsurance (continued)

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

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

	Insurance contract liabilities £m	Investment contract liabilities[i] £m	Unallocated surplus of the With-Profits Fund £m	Reinsurance[ii] £m
At 1 January 2021	76,650	95,170	15,621	(11,761)
Additions arising on acquisitions[iii]	—	598	—	—
Income and expense included in the consolidated 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)
At 31 December 2021/At 1 January 2022	**63,223**	**97,627**	**16,723**	**(1,669)**
Income and expense included in the income statement	**(7,866)**	**(4,851)**	**(1,825)**	**384**
Other movements including amounts included in other comprehensive income[v]	**—**	**(697)**	**23**	**(12)**
Foreign exchange translation differences	**30**	**49**	**173**	**5**
As at June 2022	**55,387**	**92,128**	**15,094**	**(1,292)**

[i] This comprises investment contracts with discretionary participation features of £79,481m as at 30 June 2022 (year ended 31 December 2021: £82,743m) and investment contracts without discretionary participation features of £12,647m as at 30 June 2022 (year ended 31 December 2021: £14,884m).

[ii] Includes reinsurers' share of claims outstanding of £140m as at 30 June 2022 (year ended 31 December 2021: £143m). Reinsurance at 30 June 2022 includes Reinsurance Assets of £1,467m net of longevity swap liabilities of £175m included in Accruals, deferred income and other liabilities on the consolidated statement of financial position and in Note 12. 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 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.

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

	For the six months ended 30 June 2022		
	Policyholder liabilities[i] £m	**Unallocated surplus of the With-Profits Fund £m**	**Reinsurance £m**
Movement in policyholder liabilities and unallocated surplus of the With-Profits Fund included in consolidated income statement	**12,717**	**1,825**	**—**
Movement in reinsurance asset included in consolidated income statement	**—**	**—**	**(384)**
Benefits and claims paid	**(6,395)**	**—**	**—**
Benefits and claims attributable to external reinsurers	**—**	**—**	**249**
Benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance, as shown in consolidated income statement	**6,322**	**1,825**	**(135)**

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

10 Policyholder liabilities, unallocated surplus, and reinsurance (continued)

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

	For the six months ended 30 June 2021		
	Policyholder liabilities[i]	Unallocated surplus of the With-Profits Fund	Reinsurance assets
	£m	£m	£m
Movement in policyholder liabilities and unallocated surplus of the With-Profits Fund included in consolidated income statement	(161)	(565)	—
Movement in reinsurance asset included in consolidated income statement	—	—	(610)
Benefits and claims paid	(6,659)	—	—
Benefits and claims attributable to external reinsurers	—	—	827
Benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance, as shown in consolidated income statement	(6,820)	(565)	217

	For the year ended 31 December 2021		
	Policyholder liabilities[i]	Unallocated surplus of the With-Profits Fund	Reinsurance assets
	£m	£m	£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)

11 Subordinated liabilities and other borrowings

	As at 30 June	As at 31 December
	2022	2021
	£m	£m
Subordinated liabilities	**3,741**	3,706
Operational borrowings	**28**	107
Borrowings attributable to With-Profits Fund	**4,137**	5,117
Total subordinated liabilities and other borrowings	**7,906**	8,930

Subordinated liabilities

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

	As at 30 June 2022		As at 31 December 2021	
	Principal amount	**Carrying amount**	Principal amount	Carrying amount
		£m		£m
5.625% Sterling fixed rate due on 20 October 2051	**£750m**	**844**	£750m	848
6.25% Sterling fixed rate due 20 October 2068	**£500m**	**605**	£500m	606
6.5% US Dollar fixed rate due on 20 October 2048	**$500m**	**467**	$500m	423
6.34% Sterling fixed rate due on 19 December 2063	**£700m**	**847**	£700m	849
5.56% Sterling fixed rate due on 20 July 2055	**£600m**	**674**	£600m	676
3.875% Sterling fixed rate due on 20 July 2049	**£300m**	**304**	£300m	304
Total subordinated liabilities		**3,741**		3,706

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

11 Subordinated liabilities and other borrowings (continued)

A description of the key features of each of the Group's subordinated notes is as follows:

	5.625% Sterling fixed rate	6.25% Sterling fixed rate	6.50% US Dollar fixed rate	6.34% Sterling fixed rate	5.56% Sterling fixed rate	3.875% Sterling fixed rate
Principal amount	£750m	£500m	$500m	£700m	£600m	£300m
Issue date[i]	1 October 2018	1 October 2018	1 October 2018	16 December 2013 (amended 10 June 2019)	9 June 2015 (amended 10 June 2019)	8 July 2019
Maturity date	20 October 2051	20 October 2068	20 October 2048	19 December 2063	20 July 2055	20 July 2049
Callable at par at the option of the Company from	20 October 2031 (and each semi-annual interest payment date thereafter)	20 October 2048 (and each semi-annual interest payment date thereafter)	20 October 2028 (and each semi-annual interest payment date thereafter)	19 December 2043 (and each semi-annual interest payment date thereafter)	20 July 2035 (and each semi-annual interest payment date thereafter)	20 July 2024, 20 July 2029 (and each semi-annual interest payment date thereafter)
Solvency II own funds	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 30 June 2022, the principal amount of all subordinated liabilities is expected to be settled after more than 12 months and accrued interest of £42m (31 December 2021: £42m) is expected to be settled within 12 months.

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

	For the six months ended 30 June 2022 £m	For the year ended 31 December 2021 £m
At 1 January	**3,707**	3,729
Amortisation	**(14)**	(27)
Foreign exchange movements	**48**	4
At end of period	**3,741**	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.

12 Accruals, deferred income and other liabilities

	For the six months ended 30 June 2022 £m	For the year ended 31 December 2021 £m
Outstanding purchases of investment securities	**6,957**	3,836
Accruals and deferred income	**1,464**	1,469
Deferred consideration	**311**	403
Deposits received from reinsurers	**237**	299
Creditors arising from insurance operations	**151**	156
Interest payable	**59**	60
Creation of units awaiting settlement	**62**	52
Property related creditors	**17**	15
Reinsurance liabilities[i]	**175**	—
Other	**830**	674
Total accruals, deferred income and other liabilities	**10,263**	6,964

[i] Reinsurance liabilities at 30 June 2022 relate to longevity swap liabilities of £175m (31 December 2021: £174m) previously held in Reinsurance assets on the consolidated statement of financial position and in Note 10. For the comparative periods all reinsurance is presented in Reinsurance assets.

13 Fair value methodology

13.1 Determination of fair value hierarchy

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

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

Level 1 - quoted prices (unadjusted) in active markets for identical assets and liabilities
Level 1 principally includes exchange-listed equities, mutual funds with quoted prices, exchange-traded derivatives such as futures and options, and national government bonds, unless there is evidence that trading in a given instrument is so infrequent that the market could not be considered active. It also includes other financial instruments where there is clear evidence that the 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.

Level 3 - significant inputs for the asset or liability are not based on observable market data (unobservable inputs)
Level 3 principally includes investments in private equity funds, directly held investment properties and investments in property funds which are exposed to bespoke properties or risks and investments which are internally valued or subject to a significant number of unobservable assumptions. It also includes debt securities which are rarely traded or traded only in privately negotiated transactions and hence where it is difficult to assert that their valuations have been based on observable market data.

13.2 Valuation approach for level 2 assets and liabilities

A significant proportion of the Group's level 2 assets are corporate bonds, structured securities and other 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.

13.3 Level 3 assets and liabilities

13.3.1 Valuation approach for level 3

Investments valued using valuation techniques include financial investments which by 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.

13 Fair value methodology (continued)

13.3 Level 3 assets and liabilities (continued)

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

The investment properties of the Group are externally valued by professionally qualified external valuers using the RICS valuation standards. 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.

13.3.2 Analysis of internally valued level 3 financial instruments

Level 3 financial assets, net of financial liabilities, which were internally valued as at 30 June 2022 were £9,242m (31 December 2021: £11,933m), representing 6.9% of the total fair-valued financial assets net of financial liabilities (31 December 2021: 8.0%).

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

- Debt securities of £8,590m as at 30 June 2022 (31 December 2021: £10,917m), of which £6,854m (31 December 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 £422m as at 30 June 2022 (31 December 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 £1,280m as at 30 June 2022 (31 December 2021: £1,723m) and a corresponding liability of £311m (31 December 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 £1,235m as at 30 June 2022 (31 December 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.

13.3.3 Governance of level 3

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

13 Fair value methodology (continued)

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

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

	As at 30 June 2022			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
With-profits:				
Investment property	—	—	20,137	20,137
Loans	—	154	232	386
Derivative assets	84	1,897	—	1,981
Equity securities and pooled investment funds	38,334	5,054	12,009	55,397
Debt securities	27,898	15,761	5,355	49,014
Total with-profits	66,316	22,866	37,733	126,915
Unit-linked:				
Investment property	—	—	694	694
Loans	—	—	—	—
Derivative assets	4	—	—	4
Equity securities and pooled investment funds	11,248	406	37	11,691
Debt securities	3,470	1,885	24	5,379
Total unit-linked	14,722	2,291	755	17,768
Annuity and other long-term business:				
Investment property	—	—	1,060	1,060
Loans	—	—	1,280	1,280
Derivative assets	—	403	40	443
Equity securities and pooled investment funds	5	—	2	7
Debt securities	4,940	4,368	5,197	14,505
Total annuity and other long-term business	4,945	4,771	7,579	17,295
Other:				
Investment property	—	—	—	—
Loans	—	—	—	—
Derivative assets	—	119	—	119
Equity securities and pooled investment funds	200	—	46	246
Debt securities	725	452	53	1,230
Total other	925	571	99	1,595
Group:				
Investment property	—	—	21,891	21,891
Loans	—	154	1,512	1,666
Derivative assets	88	2,419	40	2,547
Equity securities and pooled investment funds	49,787	5,460	12,094	67,341
Debt securities	37,033	22,466	10,629	70,128
Total assets at fair value	86,908	30,499	46,166	163,573

13 Fair value methodology (continued)

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

	As at 31 December 2021			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
With-profits:				
Investment property	—	—	17,707	17,707
Loans	—	141	1,411	1,552
Derivative assets	65	2,553	—	2,618
Equity securities and pooled investment funds	45,599	4,162	10,884	60,645
Debt securities	28,014	21,275	5,675	54,964
Total with-profits	73,678	28,131	35,677	137,486
Unit-linked:				
Investment property	—	—	931	931
Derivative assets	3	2	—	5
Equity securities and pooled investment funds	12,733	425	74	13,232
Debt securities	3,949	2,528	22	6,499
Total unit-linked	16,685	2,955	1,027	20,667
Annuity and other long-term business:				
Investment property	—	—	1,060	1,060
Loans	—	—	1,723	1,723
Derivative assets	—	561	58	619
Equity securities and pooled investment funds	3	—	2	5
Debt securities	5,036	6,557	6,673	18,266
Total annuity and other long-term business	5,039	7,118	9,516	21,673
Other:				
Derivative assets	—	131	—	131
Equity securities and pooled investment funds	179	—	8	187
Debt securities	731	599	—	1,330
Total other	910	730	8	1,648
Group:				
Investment property	—	—	19,698	19,698
Loans	—	141	3,134	3,275
Derivative assets	68	3,247	58	3,373
Equity securities and pooled investment funds	58,514	4,587	10,968	74,069
Debt securities	37,730	30,959	12,370	81,059
Total assets at fair value	96,312	38,934	46,228	181,474

13 Fair value methodology (continued)

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

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

	As at 30 June 2022			
	Level 1	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Investment contract liabilities without discretionary participation features	**—**	**12,647**	**—**	**12,647**
Third-party interest in consolidated funds	**7,106**	**4,717**	**1,235**	**13,058**
Derivative liabilities	**84**	**3,712**	**7**	**3,803**
Accruals, deferred income and other liabilities	**—**	**—**	**311**	**311**
Total liabilities at fair value	**7,190**	**21,076**	**1,553**	**29,819**

	As at 31 December 2021			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£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

13.6 Transfers between levels

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

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

	For the six months ended 30 June 2022			
	Financial assets and liabilities - Transfers between levels			
	Equity securities and pooled investment funds	**Debt securities**	**Derivatives**	**Total**
	£m	**£m**		**£m**
From level 1 to level 2	**379**	**2,249**	**—**	**2,628**
From level 1 to level 3	**8**	**—**	**—**	**8**
From level 2 to level 1	**16**	**2,920**	**—**	**2,936**
From level 2 to level 3	**15**	**639**	**—**	**654**
From level 3 to level 1	**4**	**—**	**—**	**4**
From level 3 to level 2	**200**	**109**	**—**	**309**

	For the year ended 31 December 2021			
	Financial Assets and Liabilities - Transfers between levels			
	Equity securities and pooled investment funds	Debt securities	Derivatives	Total
	£m	£m		£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] The transfers in debt securities from level 2 to level 1 were primarily driven by increased liquidity in the bond markets towards the end of December 2021 and refinements made to our levelling methodology.

[ii] The transfer of £54m of derivatives from level 2 to level 3 consists of £58m of assets and £4m liabilities.

13 Fair value methodology (continued)

13.7 Reconciliation of movements in level 3 assets and liabilities

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

	For the six months ended 30 June 2022										
	At 1 Jan	Total gains/ (losses) recorded in income statement	Foreign exchange	Purchases	Sales	Transfer to held for sale	Settled	Issued	Transfers into level 3	Transfers out of level 3	At 30 Jun
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Level 3 assets:											
Investment property	**19,698**	**734**	**174**	**1,533**	**(486)**	**238**	**—**	**—**	**—**	**—**	**21,891**
Loans	**3,134**	**(448)**	**2**	**92**	**(10)**	**—**	**(1,258)**	**—**	**—**	**—**	**1,512**
Equity securities and pooled investment funds	**10,968**	**888**	**231**	**1,337**	**(1,149)**	**—**	**—**	**—**	**23**	**(204)**	**12,094**
Debt securities	**12,370**	**(2,316)**	**—**	**475**	**(430)**	**—**	**—**	**—**	**639**	**(109)**	**10,629**
Derivative assets	**58**	**(18)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**40**
Total level 3 assets	**46,228**	**(1,160)**	**407**	**3,437**	**(2,075)**	**238**	**(1,258)**	**—**	**662**	**(313)**	**46,166**
Level 3 liabilities:											
Third-party interest in consolidated funds	**1,241**	**(19)**	**14**	**—**	**—**	**—**	**(87)**	**86**	**—**	**—**	**1,235**
Borrowings and subordinated liabilities	**1,159**	**—**	**—**	**—**	**—**	**—**	**(1,159)**	**—**	**—**	**—**	**—**
Derivative liabilities	**4**	**—**	**—**	**3**	**—**	**—**	**—**	**—**	**—**	**—**	**7**
Other liabilities	**403**	**(88)**	**—**	**—**	**—**	**—**	**(4)**	**—**	**—**	**—**	**311**
Total level 3 liabilities	**2,807**	**(107)**	**14**	**3**	**—**	**—**	**(1,250)**	**86**	**—**	**—**	**1,553**

	For the year ended 31 December 2021										
	At 1 Jan	Total gains/ (losses) recorded in income statement	Foreign exchange	Purchases	Sales	Transfer to held for sale	Settled	Issued	Transfers into level 3	Transfers out of level 3	At 31 Dec
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Level 3 assets:											
Investment property	19,106	1,258	(411)	2,002	(1,310)	(947)	—	—	—	—	19,698
Loans	3,220	1	(1)	99	(20)	—	(165)	—	—	—	3,134
Equity securities and pooled investment funds	8,458	2,147	(1)	1,830	(1,886)	—	—	—	456	(36)	10,968
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

13 Fair value methodology (continued)

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

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

	For the six months ended 30 June		For the year ended 31 December
	2022	2021	2021
	£m	£m	£m
Investment property	**703**	271	918
Loans	**(448)**	(61)	1
Equity securities and pooled investment funds	**486**	727	2,407
Debt securities	**(2,291)**	(520)	(332)
Derivative assets	**(19)**	—	—
Third party interest in consolidated funds	**35**	16	(51)
Other financial liabilities	**(88)**	(9)	1
Total	**(1,622)**	424	2,944

13.9 Fair value level 3 inputs and sensitivities

13.9.1 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	
	Property type	Geographical location	**For the six months ended 30 June 2022**	For the year ended 31 December 2021	**For the six months ended 30 June 2022**	For the year ended 31 December 2021
Investment property	Industrial	UK	**£9**	£9	**4.82 %**	4.98 %
		Europe	**€55**	€55	**4.35 %**	4.43 %
		Asia/Pacific	**$93**	$98	**5.06 %**	5.11 %
	Office	UK	**£39**	£34	**5.40 %**	5.42 %
		Europe	**€336**	€304	**4.10 %**	4.26 %
		Asia/Pacific	**$433**	$509	**5.54 %**	5.26 %
		North America	**$45**	$46	**5.25 %**	5.25 %
	Residential	UK	**£36**	£31	**3.78 %**	3.77 %
		Europe	**€245**	€244	**3.64 %**	3.72 %
		Asia/Pacific	**$251**	$275	**5.32 %**	4.97 %
	Retail	UK	**£31**	£28	**5.90 %**	6.34 %
		Europe	**€543**	€537	**4.34 %**	4.29 %
		Asia/Pacific	**$286**	$310	**6.83 %**	6.75 %
	Other	UK	**£47**	£27	**5.18 %**	6.40 %
		Europe	**€133**	€132	**5.27 %**	5.38 %
		Asia/Pacific	**$198**	$213	**8.00 %**	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.

13 Fair value methodology (continued)

13.9 Fair value level 3 inputs and sensitivities (continued)

Other assets:

	Unobservable input	For the six months ended 30 June 2022	For the year ended 31 December 2021
Retail income strips	Discount rate	**(1.13%) to 3.41%**	(1.86%) to 3.03%
Equity release mortgages	Illiquidity premium	**1.49 %**	1.10 %
	Total portfolio property value	**c.£3.3bn**	c.£3.3bn
	Assumed property growth rate	**3.05 %**	3.05 %
	Property rental yield	**2.00 %**	2.00 %
Private placement loans	Credit risk premium:		
	AAA to A	**0.43% to 1.64%**	0.33% to 1.08%
	BBB to BB	**1.12% to 5.62%**	0.48% to 3.59%
Infrastructure fund investments	Discount rate	**7.75% to 12%**	7.75% to 12%

13.9.2 Level 3 asset sensitivities

The Group assesses the sensitivity of the fair value of level 3 assets to reasonably possible changes in the most significant unobservable inputs. 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.

13 Fair value methodology (continued)

13.9 Fair value level 3 inputs and sensitivities (continued)

At 30 June 2022

	Fair value £m	Held in shareholder-backed funds £m	Valuation technique	Most significant unobservable input	Sensitivity	Change in fair value £m	Impact on IFRS profit after tax and shareholders' equity[vi] £m
Investment property:							
Property in use	**20,505**	**1,727**	Income capitalisation	Equivalent yield	Decrease by 50bps	**2,522**	**174**
					Increase by 50bps	**(2,043)**	**(137)**
				Estimated rental value	Decrease by 10%	**(1,740)**	**(82)**
					Increase by 10%	**1,859**	**85**
Property under development	**1,386**	**27**		Fair value	Increase by 10%	**139**	**—**
					Decrease by 10%	**(139)**	**—**
Loans:							
Equity-release mortgages[i]	**1,280**	**1,280**	Discounted cash flow[ii]	Illiquidity premium	Increase by 50bps	**(97)**	**(118)**
					Decrease by 50bps	**106**	**129**
				Current property value	Increase by 10%	**42**	**51**
					Decrease by 10%	**(51)**	**(62)**
				Assumed annual property growth rate	Increase by 100bps	**119**	**144**
					Decrease by 100bps	**(168)**	**(204)**
				Assumed annual property rental yield	Increase by 100bps	**(79)**	**(96)**
					Decrease by 100bps	**75**	**91**
Other mortgage and retail loans	**232**	**—**	Broker quotes[iii]	Fair value	Increase by 10%	**23**	**—**
					Decrease by 10%	**(23)**	**—**
Equity securities and pooled investment funds[iv]	**11,950**	**85**	Net asset statements	Net asset value	Increase by 10%	**1,195**	**1**
					Decrease by 10%	**(1,195)**	**(1)**
Infrastructure fund investments[iv]	**422**	**—**	Discounted cash flow[iv]	Discount rate	Increase by 10%	**(35)**	**—**
					Decrease by 10%	**35**	**—**
Debt securities:[iv]							
Private placement loans	**6,578**	**3,750**	Discounted cash flow[vi]	Discount rate	Increase by 40bps	**(263)**	**(207)**
					Decrease by40bps	**409**	**318**
Retail income strips	**276**	**233**	Discounted cash flow[vi]	Discount rate	Increase by 50bps	**(21)**	**(21)**
					Decrease by 50bps	**24**	**25**
Unquoted corporate bonds	**3,497**	**1,291**	Broker quotes, enterprise valuation, estimated recovery	Fair value	Increase by 10%	**350**	**154**
					Decrease by 10%	**(350)**	**(154)**
Derivative assets	**40**	**40**	Discounted cash flow[v]	Discount rate	Increase by 50bps	**(1)**	**(1)**
					Decrease by 50bps	**2**	**2**
Total level 3	**46,166**	**8,433**					

[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 £144m (31 December 2021: £88m) of equity securities and pooled investment funds and £278m (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 2018). 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 £8,433m (year ended 31 December 2021: £10,529m) of level 3 assets held in shareholder-backed funds, £755m (year ended 31 December 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 shareholder's equity.

13 Fair value methodology (continued)

13.9 Fair value level 3 inputs and sensitivities (continued)

At 31 December 2021							
	Fair value £m	Held in shareholder-backed funds £m	Valuation technique	Most significant unobservable input	Sensitivity	Change in fair value £m	Impact on IFRS profit after tax and shareholders' equity[vi] £m
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		Fair value	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]	Fair value	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	Fair value	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					

13.10 Fair value of assets and liabilities at amortised cost

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

	As at June 2022				
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total fair value £m**	**Total carrying value £m**
Assets:					
Loans	—	**99**	**2,377**	**2,476**	**2,521**
Liabilities:					
Subordinated liabilities and other borrowings	—	**7,667**	**259**	**7,926**	**7,906**

13 Fair value methodology (continued)

13.10 Fair value of assets and liabilities at amortised cost (continued)

	As at 31 December 2021				
	Level 1	Level 2	Level 3	Total fair value	Total carrying value
	£m	£m	£m	£m	£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.

14 Contingencies and related obligations

14.1 Litigation and regulatory matters

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.

In addition to the matters set out in Note 6 regarding the portfolio dividend tax litigation, further information is provided below in respect of the regulatory provision in relation to past annuity sales.

PAC agreed with the Financial Conduct Authority ('FCA') to review annuities sold without advice after 1 July 2008 to its contract-based defined contribution pension customers and have also 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 examined whether customers were given sufficient information about their potential eligibility to purchase an enhanced annuity, either from PAC or another pension provider. At 30 June 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.

14.2 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 M&G Investments Southern Africa (Pty) Limited, formerly called Prudential Portfolio Managers (South Africa) (Pty) Limited "PPMSA", in July 2021, M&G Group Limited provided a guarantee in respect of an existing loan facility between Thesele, the seller of PPMSA, and Nedbank, a third party bank amounting to ZAR 220m. The guarantee is secured on 7% of the shares that Thesele retains in M&G Investments Southern Africa (Pty) Limited.

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 the amounts involved are significant.

14.3 Support for the With-Profits Fund by shareholders

PAC is liable to meet its obligations to with-profits policyholders even if the assets of the with-profits sub-funds are insufficient to do so. The assets, represented by the unallocated surplus of the With-Profits Fund, in excess of amounts expected to be paid for future terminal bonuses and related shareholder transfers ('the excess assets') in the with-profits sub-funds could be materially depleted over time by, for example, a significant or sustained equity market downturn. In the unlikely circumstance that the depletion of the excess assets within the with-profits sub-funds was such that the Group's ability to satisfy policyholders' reasonable expectations was adversely affected, it might become necessary to restrict the annual distribution to shareholders or to contribute shareholders' funds to the with-profits sub-funds to provide financial support.

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 end of the term of the agreement.
- 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.

14 Contingencies and related obligations (continued)

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

- 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 following matters are of relevance with respect to the With-Profits Fund:

14.3.1 Pension mis-selling review

The Pensions mis-selling review covers customers who were sold personal pensions between 29 April 1988 and 30 June 1994, and who were advised to transfer out, not join, or opt out of their employer's Defined Benefit Pension Scheme. Currently a provision amounting to £308m as at 30 June 2022 (31 December 2021: £296m) is being held in relation to this within insurance contract liabilities. During the initial review, some customers were issued with guarantees that redress will be calculated on retirement or transfer of their policies. The provision continues to cover these customers.

Whilst PAC believed it met the requirements of the FSA (the UK insurance regulator at that time) to issue offers of redress to all impacted customers by 30 June 2002, there is a population of customers who, whilst an attempt was made at the time to invite them to participate in the review, may not have received their invitation. These customers 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 customer.
- proportion of provision (reserve rate) held for soft close cases (where all reasonable steps have been taken to contact the customer but the customer has not engaged with the review).

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

Assumption	Change in assumption	**As at 30 June 2022 £m**	As at 31 December 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.

14.3.2 With-profits options and guarantees

Certain policies within the With-Profits Fund include potentially valuable guarantees for 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 10.1 for further details on these options and guarantees.

15 Related party transactions

The nature of the related party transactions of the Group has not changed from those described in the Group's consolidated financial statements as at 31 December 2021.

There have been no related party transactions in the six months to 30 June 2022 which have had a material effect on the results or financial position of the Group.

16 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 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 of the transaction. The transaction is subject to regulatory approval.

Supplementary information

Alternative performance measures

Overview of the Group's key performance measures

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

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

The Group's KPMs are summarised below, along with which of these measures are considered APMs by the Group.

Key performance measure	Type	Definition
IFRS result after tax	**KPM**	The IFRS result after tax demonstrates to our shareholders the financial performance of the Group during the relevant period 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 the IFRS result before tax. Certain adjustments that are considered to be non-recurring or strategic, or due to short-term movements not reflective of longer-term performance are made to the IFRS result 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, profit/(loss) before tax from discontinued operations and impairment and amortisation in respect of acquired intangible assets. The adjusted operating profit methodology is described in Note 3.2, along with a reconciliation of adjusted operating profit before tax to the IFRS result after tax.
Net client flows (excluding Heritage)	**KPM**	Net client flows represent gross inflows less gross outflows. Gross inflows are new funds from clients and customers. Gross outflows are money withdrawn by clients and customers during the period. This KPM does not include the expected net outflows in our Heritage business, which is closed to new customers, as it runs-off.
Assets under management and administration (AUMA)	**KPM**	Closing AUMA represents the total market value of all assets managed, administered or advised on behalf of customers and clients at the end of each financial period. Assets managed by the Group include those managed on behalf of our retail customers and 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 customer has elected to invest in with a third-party investment manager. Assets under advice are advisory portfolios where clients receive investment recommendations such as Strategic Asset Allocation and model portfolios but retain discretion over executing the advice.
Shareholder Solvency II coverage ratio	**APM, KPM**	The regulatory Solvency II capital position considers the Group's overall own funds and Solvency Capital Requirements ('SCR'). The shareholder Solvency II coverage ratio is the ratio of own funds to SCR, excluding the contribution to own funds and SCR from the Group's ring-fenced With-Profits Fund. The shareholder Solvency II coverage ratio is described in the "Solvency II capital position" section.
Total capital generation	**KPM**	Surplus capital is the amount by which own funds exceed SCR under Solvency II. Total capital generation is the total change in Solvency II surplus capital before dividends and capital movements.
Operating capital generation	**KPM**	Operating capital generation is the total capital generation before tax, adjusted to exclude market movements relative to those expected under long-term assumptions and to remove other non-recurring items, including shareholder restructuring and other costs.

Supplementary information (continued)

Adjusted operating profit before tax

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

	Asset Management			Retail and Savings			Corporate centre			Total		
	For the six months ended 30 June		For the year ended 31 December	**For the six months ended 30 June**		For the year ended 31 December	**For the six months ended 30 June**		For the year ended 31 December	**For the six months ended 30 June**		For the year ended 31 December
	2022	2021	2021	**2022**	2021	2021	**2022**	2021	2021	**2022**	2021	2021
	£m	£m	£m	**£m**	£m	£m	**£m**	£m	£m	**£m**	£m	£m
Fee-based revenue	**503**	465	976	**150**	142	278	**—**	—	—	**653**	607	1,254
Annuity margin	**—**	—	—	**33**	157	369	**—**	—	—	**33**	157	369
With-profits shareholder transfer net of hedging and other gains/losses	**—**	—	—	**195**	123	268	**—**	—	—	**195**	123	268
Adjusted operating income	**503**	465	976	**378**	422	915	**—**	—	—	**881**	887	1,891
Adjusted operating expenses	**(367)**	(326)	(672)	**(152)**	(142)	(296)	**(42)**	(48)	(95)	**(561)**	(516)	(1,063)
Other shareholder (loss)/profit	**(4)**	5	17	**—**	16	41	**(126)**	(68)	(159)	**(130)**	(47)	(101)
Share of profit from joint ventures and associates[i]	**—**	6	6	**—**	—	—	**—**	—	—	**—**	6	6
Adjusted operating profit attributable to non-controlling interests	**(8)**	(3)	(12)	**—**	—	—	**—**	—	—	**(8)**	(3)	(12)
Adjusted operating profit/(loss) before tax	**124**	147	315	**226**	296	660	**(168)**	(116)	(254)	**182**	327	721

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

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

	Asset Management		Retail and Savings			Corporate Centre
	Core Asset Management	Performance fees[i] and investment income	Wealth	Heritage	Other	Other
For the six months ended 30 June 2022	£m	£m	£m	£m	£m	£m
Fee-based revenue	**492**	**11**	**70**	**55**	**25**	**—**
Annuity margin	**—**	**—**	**—**	**33**	**—**	**—**
With-profits shareholder transfer net of hedging and other gains/losses	**—**	**—**	**75**	**120**	**—**	**—**
Adjusted operating income	**492**	**11**	**145**	**208**	**25**	**—**
Asset Management operating expenses	**(367)**	**—**	**—**	**—**	**—**	**—**
Other operating expenses	**—**	**—**	**(82)**	**(52)**	**(18)**	**(42)**
Adjusted operating expenses	**(367)**	**—**	**(82)**	**(52)**	**(18)**	**(42)**
Other shareholder (loss)/profit	**—**	**(4)**	**2**	**13**	**(15)**	**(126)**
Share of profit from joint ventures and associates	**—**	**—**	**—**	**—**	**—**	**—**
Adjusted operating profit attributable to non-controlling interests	**(8)**	**—**	**—**	**—**	**—**	**—**
Adjusted operating profit/(loss) before tax	**117**	**7**	**65**	**169**	**(8)**	**(168)**

[i] Includes carried interest.

Supplementary information (continued)

Adjusted operating profit before tax (continued)

For the six months ended 30 June 2021	Asset Management Core Asset Management £m	 Performance fees[i] and investment income £m	Retail and Savings Wealth £m	 Heritage £m	 Other £m	Corporate Centre Other £m
Fee-based revenue	460	5	71	42	29	—
Annuity margin	—	—	—	157	—	—
With-profits shareholder transfer net of hedging and other gains/losses	—	—	18	105	—	—
Adjusted operating income	460	5	89	304	29	—
Asset Management operating expenses	(326)	—	—	—	—	(48)
Other operating expenses	—	—	(86)	(36)	(20)	—
Adjusted operating expenses	(326)	—	(86)	(36)	(20)	(48)
Other shareholder profit/(loss)	—	5	2	14	—	(68)
Share of profit from joint ventures and associates	6	—	—	—	—	—
Adjusted operating profit attributable to non-controlling interests	(3)	—	—	—	—	—
Adjusted operating profit/(loss) before tax	137	10	5	282	9	(116)

For the year ended 31 December 2021	Asset Management Core Asset Management £m	 Performance fees[i] and investment income £m	Retail and Savings Wealth £m	 Heritage £m	 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)

Supplementary information (continued)

Adjusted operating profit before tax (continued)

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

Breakdown of contribution from annuity margin	For the six months ended 30 June 2022 £m	2021 £m	For the year ended 31 December 2021 £m
Return on excess assets and margin release	**76**	87	172
Asset trading and portfolio management actions	**26**	4	10
Longevity assumption changes	**—**	—	125
Mismatching losses[i]	**(78)**	(15)	(6)
Other assumption and model changes[ii]	**—**	33	10
Experience variances and model improvements	**8**	26	12
Other provisions and reserves	**1**	22	46
Shareholder annuities	**33**	157	369

[i] Mismatching losses of £78m for the six months ended 30 June 2022 (30 June 2021: £15m, year ended 31 December 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 £nil for the six months ended 30 June 2022 (30 June 2021: £33m, year ended 31 December 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.

(iii) Reconciliation of adjusted operating profit before tax to IFRS (loss)/profit after tax

	For the six months ended 30 June 2022 £m	2021 £m	For the year ended 31 December 2021 £m
Adjusted operating profit before tax	**182**	327	721
Short term fluctuations in investment returns	**(1,448)**	(549)	(537)
Profit on disposal of business and corporate transactions	**—**	—	35
Restructuring costs	**(64)**	(85)	(146)
Amortisation of intangible assets acquired in business combinations	**(3)**	—	(4)
IFRS profit before tax attributable to non-controlling interests	**8**	3	12
IFRS (loss)/profit before tax attributable to equity holders	**(1,325)**	(304)	81
Tax credit attributable to equity holders	**280**	56	11
IFRS (loss)/profit after tax attributable to equity holders	**(1,045)**	(248)	92

Supplementary information (continued)

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

(i) Detailed AUMA and net client flows

	At 1 January 2022 £bn	Gross inflows £bn	Gross outflows £bn	Net client flows £bn	Market / Other movements £bn	At 30 June 2022 £bn
Institutional Asset Management	**103.1**	**5.2**	**(4.9)**	**0.3**	**(1.2)**	**102.2**
Wholesale Asset Management	**52.7**	**9.2**	**(8.4)**	**0.8**	**(2.9)**	**50.6**
Other	**0.9**	**—**	**—**	**—**	**0.1**	**1.0**
Total Asset Management	**156.7**	**14.4**	**(13.3)**	**1.1**	**(4.0)**	**153.8**
Wealth	**84.2**	**4.0**	**(4.0)**	**—**	**(1.5)**	**82.7**
of which: PruFund	**52.4**	**2.5**	**(2.5)**	**—**	**(1.0)**	**51.4**
Heritage	**117.8**	**0.2**	**(3.3)**	**(3.1)**	**(12.8)**	**101.9**
of which: shareholder annuities	**22.2**	**—**	**(0.6)**	**(0.6)**	**(3.7)**	**17.9**
of which: traditional with-profits	**81.4**	**0.2**	**(2.7)**	**(2.5)**	**(6.7)**	**72.2**
Other Retail and Savings	**9.1**	**0.5**	**(0.4)**	**0.1**	**(0.5)**	**8.7**
of which: PruFund	**6.0**	**0.4**	**(0.3)**	**0.1**	**(0.2)**	**5.9**
Total Retail and Savings	**211.1**	**4.7**	**(7.7)**	**(3.0)**	**(14.8)**	**193.3**
Corporate assets	**2.2**	**—**	**—**	**—**	**(0.4)**	**1.8**
Group Total[i]	**370.0**	**19.1**	**(21.0)**	**(1.9)**	**(19.2)**	**348.9**

[i] Included in total AUMA of £348.9 billion (year ended 31 December 2021: £370.0 billion) is £11.5 billion (year ended 31 December 2021: £7.9 billion) of assets under advice.

	At 1 January 2021 £bn	Gross inflows £bn	Gross outflows £bn	Net client flows £bn	Market / Other movements £bn	At 30 June 2021 £bn
Institutional Asset Management	85.5	7.3	(5.1)	2.2	5.8	93.5
Wholesale Asset Management	58.1	7.4	(10.8)	(3.4)	(2.2)	52.5
Other	0.8	—	—	—	(0.1)	0.7
Total Asset Management	144.4	14.7	(15.9)	(1.2)	3.5	146.7
Wealth	79.5	3.8	(4.6)	(0.8)	3.8	82.5
of which: PruFund	50.0	1.9	(2.6)	(0.7)	2.3	51.6
Heritage	133.7	0.2	(3.5)	(3.3)	(0.3)	130.1
of which: shareholder annuities	35.3	—	(0.8)	(0.8)	(1.6)	32.9
of which: traditional with-profits	84.3	0.2	(2.5)	(2.3)	1.6	83.6
Other Retail and Savings	8.4	0.3	(0.3)	—	0.4	8.8
of which: PruFund	5.5	0.2	(0.2)	—	0.3	5.8
Total Retail and Savings	221.6	4.3	(8.4)	(4.1)	3.9	221.4
Corporate assets	1.2	—	—	—	0.7	1.9
Group Total[i]	367.2	19.0	(24.3)	(5.3)	8.1	370.0

Supplementary information (continued)

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

	At 1 January 2021	Gross inflows	Gross outflows	Net client flows	Market / Other movements	At 31 December 2021
	£bn	£bn	£bn	£bn	£bn	£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

(ii) AUMA by asset class

	As at 30 June 2022									
	On balance sheet AUMA					External AUMA				Total
	With-Profits	Unit linked	Shareholder backed annuities and other long-term business	Other	Total on balance sheet AUMA	Wealth	Wholesale	Institutional	Total external AUMA	Total AUMA
	£bn	£bn	£bn	£bn	£bn		£bn	£bn	£bn	£bn
Investment property	10.9	0.1	1.1	—	12.1	—	0.4	16.8	17.2	29.3
Reinsurance assets	—	0.1	1.2	—	1.3	—	—	—	—	1.3
Loans	1.3	—	1.8	—	3.1	—	—	10.3	10.3	13.4
Derivatives[i]	(0.2)	—	(1.0)	—	(1.2)	—	0.1	—	0.1	(1.1)
Equity securities and pooled investment funds	67.6	9.6	—	—	77.2	3.5	22.1	17.0	42.6	119.8
Deposits	13.3	1.0	1.2	—	15.5	—	—	—	—	15.5
Debt securities	36.6	2.9	14.5	—	54.0	2.2	25.0	54.8	82.0	136.0
of which Corporate	26.4	2.0	10.0	—	38.4	2.2	15.6	31.5	49.3	87.7
of which Government	8.5	0.8	3.8	—	13.1	—	8.0	11.2	19.2	32.3
of which ABS	1.7	0.1	0.7	—	2.5	—	1.4	12.1	13.5	16.0
Cash and cash equivalents	2.2	0.3	0.7	—	3.2	—	3.0	3.3	6.3	9.5
Other	0.9	0.1	0.1	—	1.1	—	—	—	—	1.1
Other AUMA										24.1
Total[ii]	132.6	14.1	19.6	—	166.3	5.7	50.6	102.2	158.5	348.9

[i] Derivative assets are shown net of derivative liabilities.

[ii] Included in total AUMA of £348.9 billion (year ended 31 December 2021: £370.0 billion) is £11.5 billion (year ended 31 December 2021: £7.9 billion) of assets under advice.

Supplementary information (continued)

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

	As at 31 December 2021									
	On balance sheet AUMA					External AUMA				Total
	With-Profits £bn	Unit linked £bn	Shareholder backed annuities and other long-term business £bn	Other £bn	Total on balance sheet AUMA £bn	Wealth	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
Loans	1.4	—	2.2	—	3.6	—	—	11.2	11.2	14.8
Derivatives[i]	1.4	—	(0.6)	—	0.8	—	0.1	(0.2)	(0.1)	0.7
Equity securities and pooled investment funds	72.4	10.7	—	0.3	83.4	3.9	21.3	19.5	44.7	128.1
Deposits	11.9	1.3	1.0	—	14.2	—	(0.1)	—	(0.1)	14.1
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
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[ii]	143.0	16.1	24.5	3.1	186.7	6.4	52.7	103.1	162.2	370.0

(iii) AUMA by geography

	As at 30 June 2022 £bn	As at 30 June 2021 £bn	As at 31 December 2021 £bn
UK	**274.9**	306.5	299.9
Rest of Europe	**50.5**	47.6	48.3
Asia-Pacific	**10.4**	9.0	9.5
Middle East and Africa	**11.5**	5.8	11.0
Americas	**1.6**	1.1	1.3
Total AUMA[i]	**348.9**	370.0	370.0

[i] Included in total AUMA of £348.9 billion (year ended 31 December 2021: £370.0 billion) is £11.5 billion (year ended 31 December 2021: £7.9 billion) of assets under advice.

Solvency II capital position

Solvency II overview

The Group is supervised as an insurance group by the Prudential Regulation Authority. Individual insurance undertakings within the Group are also subject to the supervision of the Prudential Regulation Authority (or other EU competent authorities) on a solo basis under the Solvency II regime.

The Solvency II surplus represents the aggregated capital (own funds) held by the Group less the Solvency Capital Requirement (SCR). Own funds is the Solvency II measure of capital available to meet losses, and is based on the assets less liabilities of the Group, subject to certain restrictions and adjustments. The SCR is calculated using the Group's internal model, which calculates the SCR as the 99.5th percentile (or 1-in-200) worst outcome over the coming year, out of 100,000 equally likely scenarios, allowing for the dependency between the risks the business is exposed to.

Supplementary information (continued)

Solvency II capital position (continued)

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

	As at 30 June 2022 £bn	As at 30 June 2021 £bn	As at 31 December 2021 £bn
IFRS shareholders' equity	**4.0**	5.1	5.3
Add back unallocated surplus of the With-Profits Fund	**15.1**	16.2	16.7
Deduct goodwill and intangible assets	**(1.6)**	(1.3)	(1.4)
Net impact of valuing policyholder liabilities and reinsurance assets on Solvency II basis	**(0.3)**	(0.3)	(0.3)
Impact of introducing Solvency II risk margin (net of transitional measures)	**(0.9)**	(1.4)	(1.1)
Impact of measuring assets and liabilities in line with Solvency II principles	**0.4**	0.1	0.2
Recognise own shares	**0.1**	0.1	0.1
Other	**(0.2)**	(0.2)	—
SII excess of assets over liabilities	**16.6**	18.3	19.5
Subordinated debt capital	**3.3**	3.7	3.7
Ring-fenced fund restrictions	**(6.9)**	(7.4)	(7.8)
Deduct own shares	**(0.1)**	(0.1)	(0.1)
Deduct foreseeable dividends	**(0.4)**	—	—
Solvency II eligible own funds	**12.5**	14.5	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.
- Foreseeable dividends at 30 June 2022 reflect the £415m of remaining shares to be purchased via the share buy-back. Refer to Note 8 of the condensed consolidated financial statements for further information.
- Subordinated debt capital: subordinated debt is treated as a liability in the IFRS financial statements and in determining the excess of assets over liabilities in the Solvency II balance sheet. However, for Solvency II own funds, the debt can be treated as capital.
- Ring-fenced fund restrictions: any excess of the own funds over the solvency capital requirements from the With-Profits Fund is restricted as these amounts are not available to meet losses elsewhere in the Group.

Composition of own funds

The Group's total estimated own funds are analysed by Tier as follows:

	As at 30 June 2022 £bn	As at 30 June 2021 £bn	As at 31 December 2021 £bn
Tier 1 (unrestricted)	**8.9**	10.7	11.5
Tier 2	**3.3**	3.7	3.7
Tier 3	**0.3**	0.1	0.1
Total own funds	**12.5**	14.5	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 parent company, as permitted under the terms and conditions of each applicable instrument, prior to demerger. The details of the Group's subordinated liabilities are shown in Note 11. 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 £0.3bn (31 December 2021: £0.1bn) relates to deferred tax asset balances.

Supplementary information (continued)

Solvency II capital position (continued)

Estimated shareholder view of the Solvency II capital position

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

The estimated shareholder Solvency II capital position for the Group as at 30 June 2022 and 31 December 2021 is shown below:

	As at 30 June 2022 £bn	As at 30 June 2021 £bn	As at 31 December 2021 £bn
Shareholder Solvency II own funds	**9.7**	10.8	11.4
Shareholder Solvency II SCR	**(4.5)**	(5.4)	(5.2)
Solvency II surplus	**5.2**	5.4	6.2
Shareholder Solvency II coverage ratio[i]	**214 %**	198 %	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 the 'Estimated With-Profits Fund view of the Solvency II capital position' section.

In accordance with the Solvency II requirements, these results include:

- A Solvency Capital Requirement which has been calculated using the Group's internal model;
- Transitional measures, which are presented after assuming a recalculation at the valuation date, using management's estimate of the impact of operating and market conditions. As at 30 June 2022, the recalculated transitional measures do not align to the latest approved regulatory position and therefore the estimated Solvency II capital position will differ to the position disclosed in the formal regulatory Quantitative Reporting Templates;
- 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.

Breakdown of the shareholder Solvency II SCR by risk type

	As at 30 June 2022 £bn	As at 30 June 2021 £bn	As at 31 December 2021 £bn
Equity	**1.6**	1.6	1.7
Property	**0.9**	0.9	0.9
Interest rate	**0.2**	0.4	0.3
Credit	**2.1**	3.1	2.7
Currency	**1.0**	1.0	1.0
Longevity	**1.1**	1.7	1.6
Lapse	**0.3**	0.3	0.3
Operational and expense	**1.4**	1.5	1.4
Sectoral[i]	**0.6**	0.5	0.6
Total undiversified	**9.2**	11.0	10.5
Diversification, deferred tax, and other	**(4.7)**	(5.5)	(5.3)
Shareholder SCR	**4.5**	5.5	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.

Supplementary information (continued)

Solvency II capital position (continued)

Sensitivity analysis of the shareholder Solvency II coverage ratio

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

	At 30 June 2022		At 30 June 2021		At 31 December 2021	
	Surplus	**Shareholder coverage ratio %**	Surplus	Shareholder coverage ratio %	Surplus	Shareholder coverage ratio %
	£bn	**%**	£bn	%	£bn	%
Base (as reported)	**5.2**	**214 %**	5.4	198 %	6.2	218 %
20% instantaneous fall in equity markets	**4.5**	**202 %**	4.8	189 %	5.5	208 %
20% instantaneous fall in property markets	**4.7**	**204 %**	4.9	191 %	5.7	211 %
50bp reduction in interest rates	**5.1**	**206 %**	5.3	190 %	6.1	208 %
100bp widening in credit spreads	**5.0**	**213 %**	4.9	195 %	5.9	218 %
20% credit asset downgrade[i]	**4.9**	**208 %**	5.0	190 %	5.9	211 %

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

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

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

The estimated Solvency II capital position for the Group under the With-Profits Fund view as at 30 June 2022, 30 June 2021 and 31 December 2021 is shown below:

	As at 30 June 2022 £bn	As at 30 June 2021 £bn	As at 31 December 2021 £bn
With-Profits Fund Solvency II own funds	**9.7**	11.0	11.6
With-Profits Fund Solvency II SCR	**(2.8)**	(3.6)	(3.8)
WIth-Profits Fund Solvency II surplus	**6.9**	7.4	7.8
With-Profits Fund Solvency II coverage ratio[i]	**347 %**	301 %	302 %

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

Estimated regulatory view of the Solvency II capital position

The estimated Solvency II capital position for the Group under the 'regulatory' view is shown below:

	As at 30 June 2022 £bn	As at 30 June 2021 £bn	As at 31 December 2021 £bn
Solvency II own funds	**12.5**	14.5	15.3
Solvency II SCR	**(7.3)**	(9.1)	(9.1)
Solvency II surplus	**5.2**	5.4	6.2
Solvency II coverage ratio[i]	**171 %**	159 %	168 %

[i] Solvency II coverage ratio has been calculated using unrounded figures.

Capital generation

The level of surplus capital is an important financial consideration for the Group. Capital generation measures the change in surplus capital during the reporting period, and is therefore considered a key measure for the Group. It is integral to the running and monitoring of the business, capital allocation and investment decisions, and ultimately the Group's dividend policy.

The overall change in Solvency II surplus capital over the period is analysed as follows:

Total capital generation is the total change in Solvency II surplus capital before dividends and capital movements and capital generated from discontinued operations.

Operating capital generation is the total capital generation before tax, adjusted to exclude market movements relative to those expected under long-term assumptions and to remove other non-recurring items, including shareholder restructuring and other costs as defined under adjusted operating profit before tax. It has two components:

Supplementary information (continued)

Capital generation (continued)

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 capital movements from Asset Management; and other items including head office expenses and debt interest costs.

ii. Other operating capital generation, which includes non-market related experience variances, assumption changes, modelling changes and other movements.

Dividends and capital movements primarily represent external dividends paid to shareholders, the impact of the share buy-back programme and changes to the capital structure of the Group, such as issuing or repaying debt instruments. Also included within capital movements are the Solvency II impact of the Group's share-based payment awards over and above the amount expensed in respect of those awards, and the surplus utilised or generated from transactions relating to the acquisition of business as defined by IFRS.

The expected surplus capital from the in-force life insurance business is calculated on the assumption of real-world investment returns, which are determined by reference to the risk-free rate plus a risk premium based on the mix of assets held for the relevant business. For with-profits business, the assumed average return was 4.1% for the six months ended 30 June 2022,and 4.0% for the six months ended 30 June 2021 and the year ended 31 December 2021. For annuity business, the assumed average return on assets backing capital was 2.19% for the six months ended 30 June 2022, 1.15% for the six months ended 30 June 2021 and 1.15% for the year ended 31 December 2021.

The Group's capital generation results in respect of the six months ended 30 June 2022 and 30 June 2021, and year ended 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 the previous section of this supplementary information.

	Asset Management			Retail and Savings			Corporate centre			Total		
	30 June 2022	30 June 2021	31 December 2021	**30 June 2022**	30 June 2021	31 December 2021	**30 June 2022**	30 June 2021	31 December 2021	**30 June 2022**	30 June 2021	31 December 2021
	£m	£m	£m	**£m**	£m	£m	**£m**	£m	£m	**£m**	£m	£m
Underlying capital generation	**142**	145	313	**370**	213	459	**(126)**	(142)	(288)	**386**	216	484
Other operating capital generation	**(6)**	16	15	**58**	79	621	**(5)**	(2)	(3)	**47**	93	633
Operating capital generation	**136**	161	328	**428**	292	1,080	**(131)**	(144)	(291)	**433**	309	1,117
Market movements										**(482)**	600	917
Restructuring and other										**(71)**	(113)	(181)
Tax										**144**	73	(31)
Total capital generation										**24**	869	1,822

Supplementary information (continued)

Capital generation (continued)

Reconciliation of movement in Group Solvency II surplus		For the six months ended 30 June 2022 Own Funds[i] £m	SCR[i] £m	Surplus £m	For the six months ended 30 June 2021 Own Funds[i] £m	SCR[i] £m	Surplus £m	For the year ended 31 December 2021 Own Funds[i] £m	SCR[i] £m	Surplus £m
Underlying capital generation										
Asset Management	Asset Management	**129**	**13**	**142**	141	4	145	308	5	313
	Asset Management underlying capital generation	**129**	**13**	**142**	141	4	145	308	5	313
Retail and Savings	**Wealth**	**124**	**(36)**	**88**	85	(67)	18	117	(68)	49
	of which with-profits	**127**	**(31)**	**96**	94	(67)	27	128	(68)	60
	– In-force	**95**	**11**	**106**	90	(40)	50	169	(57)	112
	– New business	**32**	**(42)**	**(10)**	4	(27)	(23)	(41)	(11)	(52)
	Platform & advice	**(5)**	**(4)**	**(9)**	(2)	—	(2)	—	—	—
	Other	**2**	**(1)**	**1**	(7)	—	(7)	—	—	—
	Heritage	**180**	**86**	**266**	112	70	182	185	193	378
	of which with-profits	**70**	**30**	**100**	66	2	68	115	27	142
	of which annuity and other	**110**	**56**	**166**	46	68	114	70	166	236
	Other Retail and Savings	**19**	**(3)**	**16**	13	—	13	36	(4)	32
	Retail and Savings underlying capital generation	**323**	**47**	**370**	210	3	213	338	121	459
Corporate	Interest & Head Office cost	**(124)**	**(2)**	**(126)**	(138)	(4)	(142)	(280)	(8)	(288)
Underlying capital generation		**328**	**58**	**386**	213	3	216	366	118	484
Other operating capital generation		**(29)**	**76**	**47**	(52)	145	93	217	416	633
	of which Asset Management[ii]	**(6)**	**—**	**(6)**	6	10	16	5	10	15
	of which Retail and Savings	**(15)**	**73**	**58**	(61)	140	79	201	420	621
	of which Corporate Centre[ii]	**(8)**	**3**	**(5)**	3	(5)	(2)	11	(14)	(3)
Operating capital generation		**299**	**134**	**433**	161	148	309	583	534	1,117
	Market movements	**(1,266)**	**784**	**(482)**	340	260	600	739	178	917
	Restructuring and other	**(90)**	**19**	**(71)**	(99)	(14)	(113)	(167)	(14)	(181)
	Tax	**369**	**(225)**	**144**	87	(14)	73	16	(47)	(31)
Total Capital Generation		**(688)**	**712**	**24**	489	380	869	1,171	651	1,822
Dividends and capital movements		**(1,010)**	**(15)**	**(1,025)**	(293)	—	(293)	(410)	(24)	(434)
Total (decrease)/increase in Solvency II surplus		**(1,698)**	**697**	**(1,001)**	196	380	576	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.

[ii] Other operating capital generation for Asset Management and Corporate Centre include the impact of operating investment variances, which were previously presented within underlying capital generation. This charge reflects that these items will fluctuate with market conditions.

Supplementary information (continued)

Financial ratios

Included in this section are details of how some of the financial ratios used to help analyse the performance of the Asset Management business are calculated.

(i) Cost/income ratio

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

	For the six months ended 30 June		For the year ended 31 December
	2022	2021	2021
	£m	£m	£m
Total Asset Management operating expenses	**367**	326	672
Adjustment for revaluations[i]	**4**	2	(3)
Total Asset Management adjusted costs	**371**	328	669
Total Asset Management fee-based revenue	**503**	465	976
Less: Performance fees and carried interest	**(11)**	(5)	(23)
Total Asset Management underlying fee-based revenues	**492**	460	953
Cost/income ratio (%)	**75 %**	71 %	70 %

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

(ii) Average 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.

	For the six months ended 30 June						For the year ended 31 December		
	2022			2021			2021		
	Average AUMA[i]	**Revenue[ii]**	**Fee margin[ii]**	Average AUMA[i]	Revenue[ii]	Fee margin[ii]	Average AUMA[i]	Revenue[ii]	Fee margin[ii]
	£bn	**£m**	**bps**	£bn	£m	bps	£bn	£m	bps
Wholesale Asset Management	**52**	**150**	**57**	52	157	60	53	316	59
Institutional Asset Management	**104**	**181**	**35**	85	152	36	93	334	36
Internal	**164**	**161**	**20**	151	151	20	157	303	19
Total Asset Management	**320**	**492**	**31**	288	460	32	303	953	32

[i] Average AUMA represents the average total market value of all financial assets managed and administered on behalf of customers during the financial period. Average AUMA is calculated using a 13-point average of monthly closing AUMA for full-year periods and 7-point average of monthly closing AUMA for half-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.

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.

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

Credit risk is managed through a robust credit and counterparty framework which includes: policies, standards, appetite statements, limits and triggers (including relevant governance and controls); investment constraints and limits on the asset portfolios, in relation to credit rating, seniority, sector and issuer, and counterparties in particular for derivatives, reinsurance and cash; and a robust credit rating process.

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Supplementary information (continued)

Credit risk (continued)

Debt securities

The table below presents the Group's debt securities by asset class and external credit rating issued for each component of business.

As at 30 June 2022	AAA £m	AA+ to AA- £m	A+ to A- £m	BBB+ to BBB- £m	Below BBB- £m	Other £m	Total £m
Government sovereign debt	4,269	9,264	1,206	1,212	1,147	409	17,507
With-profits	3,055	5,493	1,144	1,118	1,119	400	12,329
Unit-linked	274	1,291	60	66	27	9	1,727
Annuity and other long-term business	889	1,861	1	27	—	—	2,778
Other	51	619	1	1	1	—	673
Quasi-sovereign and public sector debt	302	2,043	386	115	44	416	3,306
With-profits	223	1,009	287	113	38	366	2,036
Unit-linked	40	132	21	2	6	4	205
Annuity and other long-term business	39	902	78	—	—	46	1,065
Corporate debt	1,933	3,242	10,512	14,620	4,491	11,082	45,880
With-profits	1,253	1,992	7,787	11,129	3,892	6,108	32,161
Unit-linked	131	218	889	1,578	436	63	3,315
Annuity and other long-term business	353	941	1,780	1,897	136	4,898	10,005
Other	196	91	56	16	27	13	399
Asset-backed securities	941	262	531	376	46	1,279	3,435
With-profits	640	169	251	245	45	1,138	2,488
Unit-linked	39	24	18	38	1	12	132
Annuity and other long-term business	104	69	262	93	—	129	657
Other	158	—	—	—	—	—	158
Total debt securities	7,445	14,811	12,635	16,323	5,728	13,186	70,128
With-profits	5,171	8,663	9,469	12,605	5,094	8,012	49,014
Unit-linked	484	1,665	988	1,684	470	88	5,379
Annuity and other long-term business	1,385	3,773	2,121	2,017	136	5,073	14,505
Other	405	710	57	17	28	13	1,230

Supplementary information (continued)

Credit risk (continued)

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
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

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.

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 30 June 2022 £m	As at 31 December 2021 £m
AAA	**47**	53
AA+ to AA-	**2,441**	3,326
A+ to A-	**4,011**	5,301
BBB+ to BBB-	**2,001**	2,215
Below BBB-	**829**	859
Unrated	**3,857**	3,605
Total	**13,186**	15,359

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.

Supplementary information (continued)

Credit risk (continued)

The Group's exposure to sovereign debt are analysed by issuer as follows:

			30 June 2022		
	With-profits	**Unit-linked**	**Annuity and other long-term business**	**Other**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Sovereign debt securities by country:					
United Kingdom	**3,247**	**1,281**	**1,623**	**609**	**6,760**
France	**4**	**—**	**67**	**—**	**71**
Germany	**206**	**32**	**127**	**—**	**365**
Italy	**8**	**2**	**—**	**—**	**10**
Spain	**15**	**—**	**—**	**—**	**15**
Poland	**43**	**—**	**—**	**—**	**43**
Other European Countries	**1,043**	**87**	**714**	**1**	**1,845**
Total Europe	**4,566**	**1,402**	**2,531**	**610**	**9,109**
United States	**1,877**	**44**	**1**	**11**	**1,933**
Israel	**77**	**—**	**17**	**—**	**94**
Other	**5,809**	**281**	**229**	**52**	**6,371**
Total	**12,329**	**1,727**	**2,778**	**673**	**17,507**

			31 December 2021		
	With-profits	Unit-linked	Annuity and other long-term business	Other	Total
	£m	£m	£m	£m	£m
Sovereign debt securities by country:					
United Kingdom	4,552	1,860	1,988	688	9,088
France	3	—	66	—	69
Germany	178	31	150	—	359
Italy	9	2	—	—	11
Spain	16	—	—	—	16
Poland	44	—	—	—	44
Other European Countries	1,116	91	918	17	2,142
Total Europe	5,918	1,984	3,122	705	11,729
United States	1,763	137	1	10	1,911
Israel	87	—	20	—	107
Other	5,205	251	250	27	5,733
Total	12,973	2,372	3,393	742	19,480

As at 30 June 2022 Other European Countries included £1,660m (year ended 31 December 2021: £1,913m) and Other included £1,367m (year ended 31 December 2021: £1,000m) of Supranational Government bonds.

Supplementary information (continued)

Credit risk (continued)

Exposure of debt securities by sector

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

	As at 30 June 2022 £m	As at 31 December 2021 £m
Financial	**4,624**	5,588
Government	**3,836**	4,861
Real Estate	**1,963**	2,830
Utilities	**2,030**	2,467
Consumer	**687**	817
Industrial	**516**	617
Communications	**295**	365
Other	**554**	721
Total	**14,505**	18,266

Glossary

Term	Definition
Adjusted operating profit before tax	Adjusted operating profit before tax is one of the Group's key alternative performance measures. It is defined in the alternative performance measure section on page 56.
Alternative performance measure (APM)	An APM is a financial measure of historical or future financial performance, financial position or cash flows, other than a financial measure defined under IFRS or under Solvency II regulations.
Asset-backed securities (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)	Assets under management and administration represents the total market value of all financial assets managed, administered or advised on behalf of customers and 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.
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.
Demerger	The demerger of the Group from the Prudential Group in October 2019.
Director	A Director of the Company.
Earnings per share (EPS)	Earnings per share (EPS) is a commonly used financial metric which can be used to measure the profitability and strength of a company over time. EPS is calculated by dividing profit 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 employee benefit trust (EBT) is a trust set up to enable its Trustee to purchase and hold shares to satisfy employee share-based incentive plan awards.
Fair value through profit or loss (FVTPL)	Fair value through profit or loss (FVTPL) is an IFRS measurement basis permitted for assets and liabilities which meet certain criteria. Gains or losses on assets or liabilities measured at FVTPL are recognised directly in the condensed consolidated income statement.
FCA	Financial Conduct Authority - the body responsible for supervising the conduct of all financial services firms and for the prudential regulation of those financial services firms not supervised by the Prudential Regulation Authority (PRA), such as asset managers and independent financial advisers.
Group	The Company and its 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.

Glossary (continued)

Term	Definition	Term	Definition
IFDL (Investment Funds Direct Limited)	Platform business purchased from Royal London in 2020. Previously known as Ascentric, now rebranded as M&G Wealth Platform.	**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.
International Financial Reporting Standards (IFRS)	International Financial Reporting Standards 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.	**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.
Key performance measure (KPM)	The Group measures its financial performance using the following key performance measures: IFRS result 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.	**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.
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.	**Prudential Group**	Prudential plc and its subsidiaries and subsidiary undertakings.
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.	**Prudential plc**	Prudential plc is a public limited company incorporated in England and Wales with registered number 1397169 whose registered office is 1 Angel Court, London EC2R 7AG, United Kingdom.
Merger and Transformation Programme	In August 2017, Prudential plc announced the merger of its UK and Europe business with the asset manager M&G to form the Group (the Merger). In conjunction with the Merger, and as part of the execution of its business strategy, the Group is implementing a transformation programme, with a number of initiatives and programmes.	**Prudential Assurance Company (PAC)**	The Prudential Assurance Company Limited, a private limited company incorporated in England and Wales with registered number 00015454 whose registered office is 10 Fenchurch Avenue, London, EC3M 5AG, UK.
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.	**PruFund**	Our PruFund proposition provides our retail customers with access to smoothed savings contracts with a wide choice of investment profiles.
Net client flows	Net client flows represent gross inflows less gross outflows. Gross inflows are new funds from clients and customers. Gross outflows are money withdrawn by clients and customers during the period.	**Scottish Amicable Insurance Fund (SAIF)**	SAIF was a ring-fenced sub-fund of the With-Profits Fund following the acquisition of the mutually owned Scottish Amicable Life Assurance Society in 1997. The fund was 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.
Non-profit business	Contracts where the policyholders are not entitled to a share of the company's profit and surplus, but are entitled to other contractual benefits. Examples include pure risk policies (such as fixed annuities) and unit-linked policies.		

Glossary (continued)

Term	Definition	Term	Definition
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 and calculated using a notional recalculated Transitional Measure on Technical Provisions.	**Transitional measures on technical provisions**	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.
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.	**Unallocated surplus of the With-Profits Fund**	Unallocated surplus of the With-Profits Fund represents the excess of assets over policyholder liabilities that have yet to be appropriated between policyholders and shareholders.
Solvency II	A regime for the prudential regulation of insurance companies that was introduced by the EU on 1 January 2016.	**Unit-linked policy**	A policy where the benefits are determined by the investment performance of the underlying assets in the unit-linked fund.
Solvency II surplus	Solvency II surplus represents the own funds held by the Group less the solvency capital requirement.	**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.
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.	**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.