20 September 2023

M&G plc half year 2023 results

GOOD OPERATIONAL AND FINANCIAL PERFORMANCE WITH PROGRESS AGAINST CORE STRATEGIC PRIORITIES

Net client flows excl. Heritage	Adjusted Operating Profit	Operating Capital Generation	Dividends per Share	Shareholder Solvency II ratio
£0.7bn	**£390m**	**£505m**	**6.5p**	**199%**
HY 2022: £1.2bn	HY 2022: £298m	HY 2022: £433m	HY 2022: 6.2p	FY 2022: 199%

Andrea Rossi, Group Chief Executive Officer, said:

"Today's results demonstrate the underlying strength of our business model, the resilience of our balance sheet, the attractiveness of our propositions as well as the hard work and commitment of our colleagues to deliver for our clients and execute on our strategic ambitions.

"Against the backdrop of ongoing market volatility and uncertainty we have made progress against all three pillars of the strategy that we launched in March – maintaining our financial strength through capital discipline; mobilising the Transformation programme to simplify our business and improve client outcomes; and delivering growth with positive net client inflows.

"As we look ahead, I remain confident we have the right ingredients for success that will enable us to continue to deliver attractive outcomes for our clients and shareholders. We are, however, not complacent and will continue to focus on ensuring that our balance sheet remains strong and we deliver on our purpose and strategic objectives."

Growth

Positive net client flows, excluding Heritage, of £0.7 billion (30 June 2022: £1.2 billion). Net flows remain positive into a third consecutive year despite known headwinds from UK institutional clients.

Gross inflows to PruFund UK of £3.3 billion (30 June 2022: £2.5 billion) are the highest for a six-month period since 2019. The launch of all PruFund solutions on our M&G Wealth Platform will support further reach of propositions and underpin flows in H2 and beyond.

Re-entered the Defined Benefit pension market through two targeted deals with a combined premium of £617 million which maximise the synergies of our business model and provide a third avenue of growth along with Asset Management and Wealth.

Further momentum in Wholesale Asset Management with net client inflows of £1.3 billion (30 June 2022: £0.8 billion) and continued strong investment performance. As of 30 June 2023, 70% of our mutual funds ranked in the upper two performance quartiles over one year (31 December 2022: 68%) and 71% over three years (31 December 2022: 67%).

Net client inflows of £0.7 billion in Private Markets; a core area of our Asset Management business accounting for c. 40% of total revenues, with resilient flows and attractive average margins of 55 bps.

Expected redemptions from UK clients as a result of the mini budget with net client outflows of £1.4 billion (31 December 2022: outflows of £0.7 billion) in Institutional Asset Management business but encouraging progress with positive net flows in Europe and the in-housing of a £5.5 billion Asian mandate from the internal client.

Transformation and Simplification

Good momentum in the first phase of our Transformation programme, creating a leaner and more efficient organisation and improving our ability to serve clients, reduce costs and unlock growth.

Cost savings initiatives are expected to deliver a £50 million reduction on our 2023 cost base.

Completion of voluntary redundancy scheme with approximately 200 colleague exits in the final quarter of 2023 and early 2024.

Appointment of Clive Bolton (CEO, Life Insurance) and Caroline Connellan (CEO, Wealth), who alongside Joseph Pinto (CEO, Asset Management), now provide dedicated leadership for each of our three business areas.

Financial strength

Adjusted operating profit before tax of £390 million up 31% (30 June 2022: £298 million), reflecting the strength of our diversified businesses.

IFRS profit before tax of £75 million (30 June 2022: IFRS loss before tax of £1,143 million) following a reduction in losses in short-term fluctuations in investment returns.

Operating capital generation of £505 million up 17% (30 June 2022: £433 million), with a strong underlying contribution of £352 million (30 June 2022: £386 million) and higher management actions.

These results demonstrate our continued focus on proactively managing our capital base as we remain on track to generate our target of £2.5 billion operating capital generation by December 2024 – 18 months into this three-year period we have delivered 53% of the target.

Shareholder Solvency II coverage ratio remained strong, and above the top end of our target range, at 199% (31 December 2022: 199%) and our balance sheet remains conservatively positioned, as we experienced no defaults in the first half of the year.

The interim ordinary dividend of 6.5 pence per share is up 5%. This means that since listing in 2019, M&G will have returned over £2.5 billion to shareholders. The dividend is payable on 3 November 2023.

Outlook

Our focus is to continue the good progress we have made over the last six months in transforming M&G.

M&G is well positioned to navigate the current uncertain economic climate due to its diversified business model, international footprint, compelling products and services, investment capabilities and expertise.

Our results for the first half of 2023 underpin our confidence in the delivery of our strategic objectives and financial targets.

We continue to focus on our programme of business simplification and transformation, aligned to client-driven values, which will unlock growth and enable us to invest selectively, focusing our disciplined approach to capital allocation.

We remain on track to achieve our operating capital generation target of £2.5 billion by 2024, and we are making good progress on our 2025 financial targets:

- Generate £200 million of cost savings, gross of inflation;
- Reduce core Asset Manager cost to income ratio to sustainably lower than 70%;
- Deliver increased adjusted operating profit from Asset Management and Wealth to more than 50% of the Group total, excluding Corporate Centre[i]; and
- Reduce our leverage ratio to below 30%.

Our dividend policy of delivering stable or growing dividends to our shareholders remains unchanged.

[i] Based on IFRS 4 Insurance Contracts and financial segmentation as relevant at the time of the 2022 full year results.

	For the six months ended 30 June		For the year ended 31 December
Performance highlights[i]	**2023**	2022	2022
Adjusted operating profit before tax (£m)[ii]	**390**	298	625
IFRS profit/(loss) after tax (£m)[ii]	**75**	(1,143)	(2,055)
Assets under management and administration (£bn)	**332.8**	348.9	342.0
Net client flows (excluding Heritage) (£bn)	**0.7**	1.2	0.3
Operating capital generation (£m)	**505**	433	821
Total capital generation (£m)	**73**	24	(397)
Shareholder Solvency II coverage ratio (%)	**199%**	214%	199%

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

[ii] Comparative numbers restated as a result of the introduction of IFRS 17 (Insurance Contracts) and IFRS 9 (Financial Instruments).

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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. The 2022 comparative results, which were previously prepared under IFRS 4, have been restated following the adoption of IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments* from 1 January 2023.

3. On 20 July 2023 we published indicative restated adjusted operating profit before tax for the year ended 31 December 2022. Since then we have revised the calculation of the amortisation factor applied to the with-profits Contractual Service Margin which is the unearned profit on this business and made some refinements to our adjusted operating methodology. As a result of these changes the indicative restated adjusted operating profit for the year end 31 December 2022 published previously of £552 million has since been revised to £625 million.
4. The shareholder view and regulatory view of the Solvency II coverage ratio as at 30 June 2023 assume transitional measures on technical provisions which have been recalculated using management's estimate of the impact of operating and market conditions at the valuation date, and include the impact of the Own Funds restriction.
5. Total number of M&G plc shares in issue as at 30 June 2023 was 2,374,712,121.
6. A live webcast of the Half Year 2023 Results presentation and Q&A will be hosted by Andrea Rossi (CEO) and Kathryn McLeland (CFO) on Wednesday 20th September at 09:00 BST. Register to join at: https://mngresults.connectid.cloud/register

   Or dial in by phone in the UK: 0800 358 1035 or +44 20 4587 0498 Access code: 291856

   For global dial-in numbers see: https://www.netroadshow.com/events/global-numbers?confid=55138

   The Results presentation will be available to download from 07:00 BST on our Results, reports and presentations web page:

   https://www.mandg.com/investors/results-reports-and-presentations

Dividend to be paid in November 2023

Ex-dividend date	28 September 2023
Record date	29 September 2023
Payment of dividend	3 November 2023

About M&G plc

M&G plc is a leading international savings and investments business, managing money for around 5 million retail clients and more than 800 institutional clients in 26 markets. As at 30 June 2023, we had £332.8 billion of assets under management and administration. 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 retail and savings clients under the M&G Wealth and Prudential brands in the UK and Europe, and under the M&G Investments brand for asset management clients globally.

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.

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 M&G plc 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 M&G plc 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 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.

Management statement

We are pleased with our results for the first half of 2023 and the good progress we have made on the three key priorities for the business that we launched in March: maintaining our financial strength, simplifying our business and delivering sustainable growth. Operating capital generation of £505 million and adjusted operating profit before tax of £390 million have increased by 17% and 31%, respectively, compared to the first half of 2022.

Operating capital generation of £505 million (30 June 2022: £433 million) is underpinned by continuing strong underlying capital generation and increased capital generated by management actions.

Adjusted operating profit before tax of £390 million (30 June 2022: £298 million) reflects a strong contribution from our Retail and Savings segment driven by an improved result from with-profits business and higher returns from excess assets in the shareholder annuity portfolio following the rise in interest rates. Higher investment returns from our treasury activities improved our Corporate Centre results, which more than offset a slight reduction in adjusted operating profit from our Asset Management segment.

Our IFRS result is a profit after tax attributable to equity holders in the period of £75 million (30 June 2022: £1,143 million loss) following a reduction in losses on short-term fluctuations in investment returns. Increases in yields in the period have not been as significant as the prior period, resulting in lower fair value losses on the interest rate hedging we have in place to protect our Solvency II capital position and improvements in the expected long term return on surplus assets in annuity portfolio. IFRS results are reported for the first time on the basis of the new insurance accounting standard, IFRS 17, marking a significant milestone for our business and the insurance industry as a whole. The comparative periods have been restated accordingly.

Delivering profitable growth

We have achieved net client inflows (excluding Heritage) of £0.7 billion for the six months to 30 June 2023 compared to net client inflows of £1.2 billion over the first six months of 2022. We more than offset the anticipated redemptions from UK institutional clients triggered by the mini-budget crisis in September 2022 by achieving net client inflows in both Wholesale Asset Management and Wealth.

After returning to net client inflows in 2022, momentum in Wholesale Asset Management accelerated further, with net client inflows of £1.3 billion for the first half of 2023, compared to £0.8 billion for the six months to 30 June 2022. As of 30 June 2023, 70% of our wholesale funds ranked in the upper two performance quartiles over one year (31 December 2022: 68%) and 71% over three years (31 December 2022: 67%). The positive trend in Wholesale Asset Management follows the review and improvement of our propositions in respect of client demands and pricing structures, and leveraging a high quality offering diversified across equities, fixed income and developed and emerging markets.

Our Institutional Asset Management business saw net client outflows of £1.4 billion (30 June 2022: inflows of £0.3 billion) driven by the exceptional and expected redemptions from UK clients triggered by the mini-budget crisis. Despite these known headwinds in the UK, we have continued to expand our presence in Europe, winning large mandates in the Netherlands and Switzerland, where amongst others, we secured a £0.8 billion mandate from the Swiss Investment Fund for Emerging Markets. Our expertise in private markets, which offers private credit, structured credit, impact & private equity, real estate and infrastructure offerings, is a key component of our institutional investment capability and generated over 40% of Asset Management revenue, at an average fee of 55 bps.

Wealth and Other Retail and Savings achieved net client inflows of £0.8 billion (30 June 2022: £0.1 billion), driven by strong gross inflows to PruFund of £3.8 billion for the first half of 2023, which are the highest for a six month period since 2019. In May we launched PruFund Growth, PruFund Cautious and PruFund Risk Managed on our M&G Wealth platform, further expanding the reach of this unique proposition, while improving and digitising advisor journeys. The wider PruFund range being now more accessible to advisors will support flows in the second half of the year and beyond. We have grown our tied-advisors network to over 500 people, achieved through organic recruiting, in-house training, and the completion of the Continuum acquisition.

In our FY 2022 results announcement, we outlined our intention to offer innovative solutions to selected defined benefit pension funds given the marked change in market conditions with UK pensions schemes fundamentally reassessing their strategies. We are delighted that, within the UK, we have closed two bulk-purchase annuity transactions in September 2023, for a combined premium of £617 million (not included in these HY results), one of those being an internal Defined Benefit pension scheme of the Group. Re-entering this market formed a key component of our strategy and represents the first deals we have completed since closing the annuity book to new business in 2016. In doing so, we have opened a third channel to bring growth into M&G alongside Asset Management and Wealth.

Simplifying our business

We made good progress over the first half of the year under our transformation programme to deliver a leaner and more efficient organisation to support better outcomes for our clients and expect to achieve £50 million of cost savings, gross of inflation, by the end of the year. We have already started to roll out a new target operating model and this is reflected in our decision to reshape our leadership team and rationalise our location footprint by expanding our presence in low cost locations through offshoring, while reducing our presence in London. We offered voluntary redundancy to colleagues and accepted applications for redundancy from approximately 200 colleagues who will leave the business in the final quarter of 2023 and early 2024.

We also achieved a significant milestone in the first half of the year when we successfully migrated nearly 2 million clients to a new policy administration system. This allows us to deliver a better experience to clients and at the same time, decommission legacy IT and lower costs.

Maintaining our financial strength

Operating capital generation increased to £505 million (30 June 2022: £433 million), driven by strong underlying capital generation (albeit down 9% on 2022). We are well positioned to achieve our target of £2.5 billion of cumulative operating capital generation by 2024 and have achieved 53% of the target we committed to within the first 18 months.

Our shareholder Solvency II coverage ratio remains strong at 199% (31 December 2022: 199%). Total capital generation during the period, net of a £280 million Own Funds restriction, was £73 million (30 June 2022: £24 million). This demonstrates our continued focus on proactively and efficiently generating capital, and our strategy of hedging the impact of market volatility on the Solvency II balance sheet.

The strength of our financial position and the capital generated allows us to declare an interim ordinary dividend of 6.5 pence per share (30 June 2022: 6.2 pence per share), payable on 3 November 2023.

Our leverage ratio, defined as the nominal value of debt as a percentage of the shareholder view of M&G plc's Solvency II unrestricted own funds at 30 June 2023, is 36% (31 December 2022: 35%). The increase in the ratio is due to the fall in unrestricted own funds.

Leadership changes

In order to drive the growth agenda for our Wealth and Life Insurance operations, and following the decision of Clare Bousfield, Retail and Savings CEO, to leave the business, we welcome Caroline Connellan as our new Wealth CEO, and Clive Bolton as our new Life Insurance CEO, both joining us this month. Caroline has over 25 years of experience in retail financial services, with a proven track record of transforming and growing wealth management businesses with a strong customer-centric focus. Clive has worked for over 30 years in financial services, and comes with experience of developing successful businesses that provide innovative savings, retirement, and later life solutions.

As previously announced, Joseph Pinto joined us as CEO of our Asset Management business in March 2023, following Jack Daniels' retirement. Rob Lewis joined us as our new Chief Auditor in April 2023, Rob is a highly-skilled audit professional and an experienced leader. Charlotte Heiss has also joined as General Counsel and Company Secretary, Charlotte has over 20 years' legal and governance experience and has advised a number of blue-chip companies across a range of sectors.

Outlook

Our focus is to continue the good progress we have made over the first half of 2023 in transforming M&G.

M&G is well positioned to navigate the current uncertain economic climate due to its diversified business model, international footprint, compelling products and services, investment capabilities and expertise.

Our results for the first half of 2023 underpin our confidence in the delivery of our core priorities and financial targets.

We continue to focus on our programme of business simplification and transformation, aligned to client-driven values, which will unlock growth and enable us to invest selectively focusing our disciplined approach to capital allocation.

We remain on track to achieve our operating capital generation target of £2.5 billion by end 2024, and we are making good progress on our 2025 financial targets:

- Generate £200 million of cost savings, gross of inflation; expect to achieve £50 million by the end of the year;
- Reduce core Asset Manager cost/income ratio to sustainably lower than 70%;
- Deliver increased adjusted operating profit from Asset Management and Wealth to more than 50% of the Group total, excluding Corporate Centre[i]; and
- Reduce our leverage ratio to below 30%.

Our dividend policy of delivering stable or growing dividends to our shareholders remains unchanged.

[i] Based on IFRS 4 Insurance Contracts and financial segmentation as relevant at the time of the 2022 full year results.

Restatement of comparative information for IFRS results and adjusted operating profit before tax

On 1 January 2023 we adopted the new accounting standards IFRS 17 Insurance Contracts and IFRS 9 Financial Instruments and as a result the IFRS comparative results have been restated for the retrospective application of the standards. For details of the impact of the new standards refer to Note 1.3 of the condensed consolidated financial statements. The adoption of the new standards has led to changes to our adjusted operating profit methodology. As a result, adjusted operating profit before tax for the year ended 31 December 2022 and the six months ended 30 June 2022 has been restated from that reported previously. The restatement is driven by the change in profit recognition profile of the annuities and with-profits business in the Retail and Savings segment as a result of the new insurance standard and also other changes to our adjusted operating profit methodology, unrelated to the adoption of IFRS 17, which were implemented at the same time. These unrelated changes to our adjusted operating methodology are to classify foreign exchange movements on non-GBP denominated subordinated debt and fair value movements on strategic investments as non-operating items. The changes to our adjusted operating profit methodology are discussed further in Note 3 of the condensed consolidated financial statements. This includes the new adjusted operating profit methodology for our IFRS 17 in-scope business.

On 20 July 2023 we published indicative restated adjusted operating profit before tax for the year ended 31 December 2022. Since then we have revised the calculation of the amortisation factor applied to the with-profits CSM (Contractual Service Margin) which is the unearned profit on this business. Our IFRS 17 accounting policies are set out in Note 1 of the condensed consolidated financial information. We have also made refinements to our adjusted operating profit methodology for annuities and with-profits business. These refinements have been made so that adjusted operating profit better reflects the longer term performance of the Group and are detailed in Note 3 to the condensed consolidated financial statements. As a result of the revised CSM calculation and the refinements of our adjusted operating profit methodology the indicative restated adjusted operating profit for the year ended 31 December 2022 published previously of £552 million has since been revised to £625 million.

Overview of Group results

Adjusted operating profit before tax

The following table shows adjusted operating profit before tax split by segment. Results for the comparative period have been marked as restated where they have been impacted by changes in adjusted operating profit methodology in the period as set out above and to reflect the retrospective application of IFRS 17, 'Insurance Contracts' and IFRS 9, 'Financial Instruments' from 1 January 2023, as outlined below in Note 1.3.1.

	For the six months ended 30 June		For the year ended 31 December
£m	2023	Restated 2022	Restated 2022
Asset Management	**118**	124	264
Wealth	**91**	93	158
Heritage	**279**	201	441
Other	**4**	—	19
Retail and Savings	**374**	294	618
Corporate Centre	**(102)**	(120)	(257)
Adjusted operating profit before tax	**390**	298	625

Adjusted operating profit before tax increased to £390 million in the six months to 30 June 2023 (30 June 2022: £298 million).

In Asset Management, the reduction in adjusted operating profit before tax to £118 million (30 June 2022: £124 million) includes an increase in investment return from £(4) million to £13 million which is more than offset by an increase in the operational cost base primarily due to the acquisition of responsAbility.

In Retail and Savings the return from Wealth PruFund and Heritage traditional with-profits business was up £46 million to £248 million benefiting from a higher opening CSM balance due to an increase in yields over 2022. The return on shareholder annuities increased by £45 million to £151 million driven by upward movements in yields and the expected return on excess assets. This is partly offset by increase in losses in Wealth Platform and Advice business of £11 million and Other Wealth of £7 million due to the increase in cost bases as a result of inflation. This has led to an increase in Retail and Savings adjusted operating profit of £80 million to £374 million (30 June 2022: £294 million).

The Corporate Centre has benefitted from higher investment return from our treasury function, of £30 million (30 June 2022: £3 million) as a result of higher variable-linked interest rates. This was partly offset by an increase in Head Office expenses linked to inflation.

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

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

£m	For the six months ended 30 June 2023	Restated 2022	For the year ended 31 December Restated 2022
Adjusted operating profit before tax	**390**	298	625
Short-term fluctuations in investment returns	**(177)**	(1,614)	(2,858)
Mismatches arising on application of IFRS 17	**(40)**	(50)	(244)
Amortisation of intangible assets acquired in business combinations	**(6)**	(3)	(35)
Restructuring and other costs[i]	**(74)**	(64)	(147)
IFRS profit/(loss) before tax and non-controlling interests attributable to equity holders	**93**	(1,433)	(2,659)
IFRS profit attributable to non-controlling interests	**8**	8	19
IFRS profit/(loss) before tax attributable to equity holders	**101**	(1,425)	(2,640)
Tax (charge)/credit attributable to equity holders	**(26)**	282	585
IFRS profit/(loss) after tax attributable to equity holders	**75**	(1,143)	(2,055)

[i] Restructuring and other costs excluded from adjusted operating profit relate to transformation costs allocated to the shareholder. These differ to restructuring costs included in the analysis of administrative and other expenses in Note 6 which include costs allocated to the policyholder.

IFRS profit/(loss) after tax

The IFRS result after tax attributable to equity holders is a profit of £75 million compared to a £1,143 million loss for the six months ended 30 June 2022. The favourable movement reflects a reduction in losses from short-term fluctuations in investment returns to £177 million in the period (30 June 2022: £1,614 million loss).

Market conditions have led to lower losses from short-term fluctuations in investment returns in the current period, with the impact of rising interest rates in the six months to 30 June 2023 not as significant as the six months to 30 June 2022. These losses primarily comprise a £118 million loss (30 June 2022: £602 million loss) on interest rate swaps purchased to protect PAC's Solvency II capital position against falls in interest rates and a £22 million loss (30 June 2022: £817 million loss) from the difference in actual and long-term expected investment return on surplus assets backing the annuity portfolio, both of which have significantly reduced due to the smaller increase in yields in 2023 compared to 2022. There were also losses of £101 million (30 June 2022: £130 million gain) on the hedging instruments held to protect the Solvency II capital position from falling equity markets, which moved to a loss as a result of increases in the US and European equity markets.

In the half year to 30 June 2023, restructuring and other costs of £74 million mainly relate to transformation costs of £40 million, £15 million of investment spend in building out capability in our Asset Management business and £11 million for the development of the M&G Wealth platform business. This compares to £64 million of restructuring costs for the half year to 30 June 2022.

The equity holders tax charge for the six months ended 30 June 2023 was £26 million (30 June 2022: tax benefit of £282 million) representing an effective tax rate of 25.7% (30 June 2022: 19.8%). The equity holders' effective tax rate of 25.7% was higher than the UK statutory rate of 23.5% (30 June 2022: 19.0%) primarily due to non-deductible expenses for the period.

Capital generation

The following table shows an analysis of total capital generation:

£m	For the six months ended 30 June 2023	2022	For the year ended 31 December 2022
Asset Management	**119**	142	246
Retail and Savings	**344**	370	641
Corporate Centre	**(111)**	(126)	(259)
Underlying capital generation	**352**	386	628
Other operating capital generation	**153**	47	193
Operating capital generation	**505**	433	821
Market movements	**(141)**	(482)	(1,225)
Restructuring and other costs	**(61)**	(71)	(166)
Tax	**50**	144	173
Eligible Own Funds restriction	**(280)**	—	—
Total capital generation	**73**	24	(397)

Total capital generation was £73 million for the six months ended 30 June 2023 (30 June 2022: £24 million), reflecting benefits from changes in the strategic asset allocation in the With-Profits Fund and an improved result from market movements, offset by the impact of the eligible Own Funds restriction. There are limits, prescribed by the regulator, on the amount of different types of Own Funds that can be used to demonstrate solvency. As at 30 June 2023, the sum of capital classed as Tier 2 and Tier 3 exceeds 50% of the regulatory Group Solvency Capital Requirement by £280 million. While this capital remains available to the Group, as it is above this regulatory threshold Own Funds must be restricted by this amount to determine eligible Own Funds.

Underlying capital generation fell to £352 million (30 June 2022: £386 million). The fall is mainly attributable to lower capital generation from the asset management business and losses within Wealth.

The increase in other operating capital generation in the first half of 2023 to £153 million (30 June 2022: £47 million) mainly reflects higher benefits from asset trading, in particular a £122 million capital benefit from an update to the strategic asset allocation for the With-Profits Fund. There was a further contribution from asset trading in the annuity portfolio, albeit slightly reduced from the contribution at 30 June 2022.

Market movements in the first half of 2023 have resulted in a negative impact of £141 million (30 June 2022: negative £482 million). Although equity markets have improved, returns on the With-Profits Fund were lower than expected, and credit has already been taken for the expected return in underlying capital generation. The movement of £341 million is mainly driven by a reduction in the benefit from the present value of shareholder transfers less equity hedges to £(186) million (30 June 2022: positive £221 million), and a loss on the value of surplus assets in the annuity fund of £42 million (30 June 2022: £936 million loss). Other market impacts include a loss on interest rate swaps, designed to protect the Solvency II capital position in a falling interest rate environment, of £118 million (30 June 2022: £621 million loss). These impacts are partially offset by a reduction in solvency capital requirement of £92 million (30 June 2022: £784 million reduction), driven by the increase in yields.

Restructuring and other costs of £61 million (30 June 2022: £71 million) reflect the impact on the capital position of transformation costs, integration of the Wealth business, and changes to our office space in respect of our future ways of working.

Capital position

The Group's shareholder Solvency II coverage ratio remained strong at 199% (31 December 2022: 199%). However, Solvency II surplus decreased to £4.4 billion as at 30 June 2023 (31 December 2022: £4.6 billion), driven by a reduction in eligible Own Funds. Although capital generation, net of the eligible Own Funds restriction, was positive £73 million, this was offset by the payment of £310 million in dividends to shareholders. The solvency ratio remained stable as the Solvency Capital Requirement (SCR) also reduced, driven by the rise in yields.

Our With-Profits Fund continues to have a strong Solvency II coverage ratio of 429%. Although the surplus remained stable, the ratio increased from the 362% reported at 31 December 2022 due to a reduction in SCR driven by the expected surplus from in-force business, management actions including hedging and managing credit risk, and market movements in the period.

The regulatory Solvency II coverage ratio of the Group as at 30 June 2023 was 168% (31 December 2022: 164%). 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 2023	2022	As at 31 December 2022
Nominal value of subordinated debt	**3,243**	3,262	3,264
Shareholder Solvency II own funds	**9,086**	9,711	9,268
Leverage ratio	**36%**	34%	35%

The leverage ratio is defined as the nominal value of debt as a percentage of the shareholder view of M&G plc's Solvency II available own funds, which excludes the eligible Own Funds restriction noted in the capital position section above. Our leverage ratio of 36% (31 December 2022: 35%) has increased as a result of the fall in Solvency II available own funds in the period.

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

£m	For the six months ended 30 June 2023	Restated[i] 2022	For the year ended 31 December Restated[i] 2022
Opening cash and liquid assets at the beginning of the period	**986**	1,895	1,895
Cash dividends from subsidiaries	**333**	333	579
Corporate costs	**(80)**	(89)	(140)
Interest paid on core structural borrowings	**(94)**	(94)	(190)
Cash dividends paid to equity holders	**(310)**	(311)	(465)
Share buy-back	**—**	(85)	(503)
Shares purchased by employee benefits trust	**(5)**	—	—
Acquisition of and capital injections into subsidiaries	**(46)**	(205)	(221)
Other	**47**	32	31
Closing cash and liquid assets at the end of the period[ii]	**831**	1,476	986

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

[ii] Closing cash and liquid assets at 30 June 2023 included a £768 million (31 December 2022: £950 million) inter-company loan asset with Prudential Capital plc, which acts as the Group's treasury function.

Movements in cash and liquid assets held by the holding companies for the six months ended 30 June 2023 represent the dividends and payments that will arise in the normal course of business. Total cash and liquid assets have decreased with dividend payments to equity holders of £310 million and interest paid on structural borrowings of £94 million. This has been partly offset by cash dividends of £333 million received from our subsidiaries.

Asset Management

The momentum in the Wholesale Asset Management business has continued with an increase in net client inflows in the first six months of the year. However, expected redemptions triggered by challenging market conditions in the UK in 2022 led to net client outflows in Institutional Asset Management.

Assets under management and administration and net client flows

	Net client flows			AUMA	
£bn	**For the six months ended 30 June 2023**	For the six months ended 30 June 2022	For the year ended 31 December 2022	**As at 30 June 2023**	As at 31 December 2022
Institutional Asset Management	**(1.4)**	0.3	(0.7)	**94.0**	99.2
Wholesale Asset Management	**1.3**	0.8	0.5	**52.3**	53.9
Other	**—**	—	—	**1.1**	1.1
Total Asset Management[i]	**(0.1)**	1.1	(0.2)	**147.4**	154.2

[i] Included in total Asset Management AUMA of £147.4 billion (31 December 2022: £154.2 billion) is £10.4 billion assets under advice (31 December 2022: £10.1 billion).

Wholesale Asset Management flows continued to strengthen, having returned to net client inflows in 2022 for the first time since 2018, with net client inflows of £1.3 billion in the first six months of the year (30 June 2022: £0.8 billion). There has been a continued improvement in investment performance and as of 30 June 2023, 70% of our Wholesale funds ranked in the upper two performance quartiles over one year (31 December 2022: 68%) and 71% in the upper two performance quartiles over three years (31 December 2022: 67%). Much of the growth has come from the UK, where we have attracted net client inflows of £1.5 billion.

Wholesale assets under management and administration (AUMA) decreased by £1.6 billion to £52.3 billion driven by negative market and other movements of £2.9 billion in the year to date.

Net client outflows of £1.4 billion (30 June 2022: £0.3 billion net client inflows) in our Institutional Asset Management business reflects the significant market volatility experienced in the UK in 2022, with redemptions triggered following September's mini-budget leading to net client outflows in the first half of the year of £2.8 billion. Despite these expected redemptions in the UK, we have continued to expand our presence in Europe, winning large mandates in both the Netherlands and Switzerland, where we won £0.8 billion of client inflows from the Swiss Investment Fund for Emerging Markets in the first half of 2023.

Institutional AUMA decreased by £5.2 billion to £94.0 billion driven by negative market and other movements of £3.8 billion in the main from the weakening of foreign currency denominated AUMA, notably in South Africa.

Our expertise in private markets, which offers private credit, structured credit, impact and private equity, real estate and infrastructure offerings, is a key component of our institutional investment capability, and represents a resilient, high-margin source of revenues. Our private assets under management decreased to £73.8 billion of AUMA as at 30 June 2023 (31 December 2022: £76.6 billion) owing to negative market and other movements which more than offset £0.7 billion net inflows.

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	**2023**	2022	2022
Fee-based revenue	**507**	503	1,051
Asset Management operating expenses	**(394)**	(367)	(763)
Investment return	**13**	(4)	(5)
Adjusted operating profit attributable to non-controlling interests	**(8)**	(8)	(19)
Adjusted operating profit before tax	**118**	124	264

Adjusted operating profit before tax from our Asset Management business has decreased to £118 million in the six months to 30 June 2023 (30 June 2022: £124 million) with improved investment return partly offsetting increased expenses.

Revenue earned by Institutional Asset Management was £293 million (30 June 2022: £291 million) which includes £20 million of revenue recognised from responsAbility, which was acquired in May 2022. This was partly offset by lower revenue earned on public fixed income, due to the impact of lower AUMA from market volatility and outflows from the mini-budget crisis. Wholesale Asset Management revenue increased marginally to £203 million (30 June 2022: £201 million). In addition income earned from performance fees and carried interest included in fee-based revenue was £11 million (30 June 2022: £11 million).

Asset Management average fee margin of 33bps was up 2bps from 30 June 2022. Average fee margins in the Institutional Asset Management business increased to 30bps (30 June 2022: 28bps) driven by the inclusion of responsAbility, while Wholesale Asset Management fee margins remained flat at 38bps.

Asset Management operating expenses have increased by £27 million to £394 million (30 June 2022: £367 million) with additional costs of £19 million from responsAbility. The remainder of the cost increase relates to impacts from rising inflation. The impact on revenue, partly mitigated by better margins, and the increased cost has resulted in an increase to the cost/income ratio for the Asset Management business to 79% (30 June 2022: 75%).

Investment return relates to returns on seed investments, units held to hedge management incentive schemes and interest income on cash balances which have increased by £17 million compared to the prior period reflecting an improvement in market conditions.

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	**2023**	2022	2022
Underlying capital generation	**119**	142	246
Other operating capital generation	**(5)**	(6)	(33)
Operating capital generation	**114**	136	213

Underlying capital generation for the six months ended 30 June 2023 decreased to £119 million (30 June 2022: £142 million). The contribution from the Asset Management business fell primarily due to the impact on revenue in the period as a result of adverse market conditions and an increase in costs in the period.

Other operating capital generation has remained flat; this mainly reflects investment income offset by adverse foreign exchange movements.

Retail and Savings

We continue to see growth in our Wealth business, demonstrated by improvement in net client inflows and a strong performance from our with-profits business.

Assets under management and administration and net client flows

	Net client flows			AUMA[i]	
£bn	**For the six months ended 30 June 2023**	For the six months ended 30 June 2022	For the year ended 31 December 2022	**As at 30 June 2023**	As at 31 December 2022
Wealth	**0.6**	—	0.2	**84.6**	83.4
Heritage	**(3.2)**	(3.1)	(6.0)	**90.3**	94.1
Other	**0.2**	0.1	0.3	**9.1**	8.9
Total Retail and Savings[i]	**(2.4)**	(3.0)	(5.5)	**184.0**	186.4

[i] £156.9 billion of AUMA is managed internally by the Group's Asset Management business (31 December 2022: £149.9 billion).

Overall, Retail and Savings (excluding Heritage) achieved net client inflows of £0.8 billion (30 June 2022: £0.1 billion). PruFund is an investment solution offered to clients of both Wealth and Other Retail and Savings. PruFund attracted net client inflows of £1.1 billion for the six months to 30 June 2023 (30 June 2022: £0.1 billion) across both business lines due to higher gross inflows of £3.8 billion, which are the highest for a six month period since 2019.

The improved inflows into PruFund follow strong investment performance and further digitisation. The trends underscore the importance of broadening the accessibility of our propositions offered to our Wealth clients. In May we launched PruFund Growth, PruFund Cautious and PruFund Risk Managed on our M&G Wealth platform, further expanding the reach of this unique proposition, while improving and digitising advisor journeys. We have grown our tied-advisors network to over 500 people, achieved through organic recruiting, in-house training, and the completion of the Continuum acquisition.

Retail and Savings AUMA decreased to £184.0 billion driven by a fall in Heritage AUMA due to expected net client outflows of £3.2 billion (30 June 2022: £3.1 billion).

Adjusted operating profit before tax by source of earnings

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

£m	For the six months ended 30 June 2023	Restated 2022	For the year ended 31 December Restated 2022
Wealth	**91**	93	158
– *With-profits*	**119**	103	190
– *Platform and advice*	**(19)**	(8)	(23)
– *Other*	**(9)**	(2)	(9)
Heritage	**279**	201	441
– *With-profits*	**129**	99	200
– *Shareholder annuities and other*[i]	**150**	102	241
Other Retail and Savings	**4**	—	19
Total Retail and Savings adjusted operating profit before tax	**374**	294	618

[i] Includes adjusted operating profit before tax from shareholder annuities of £151 million (six months ended 30 June 2022: £106 million, year ended 31 December 2022: £239 million) and adjusted operating loss before tax from other heritage business of £1 million (six months ended 30 June 2022: £4 million loss, year ended 31 December 2022: £2 million profit).

Adjusted operating profit before tax from our Retail and Savings business increased to £374 million (30 June 2022: £294 million) driven by an improvement in Heritage.

Wealth

Wealth adjusted operating profit before tax of £91 million remained consistent with the first six months of 2022 since an increase in the adjusted operating profit arising from with-profits business was offset by higher losses from our platform and advice business. Wealth with-profits business relates to PruFund and has benefited from an increase in the amount released from the contractual service margin (CSM). The losses from the platform and advice business increased to £19 million (30 June 2022: £8 million) driven by an increase in costs owing to inflation and a one-off intangible asset write-off in the period of £7 million.

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

£m	For the six months ended 30 June 2023	Restated 2022	For the year ended 31 December Restated 2022
CSM release	**101**	79	154
Expected return on excess assets	**21**	10	21
Other	**(3)**	14	15
PruFund	**119**	103	190

The CSM is based on the expected value of future shareholder transfers which has been impacted by the rise in yields over 2022. As a result, the CSM at the start of 2023 is higher than at the start of 2022, and there has been an increase of £22 million in the amount of the CSM released to profit compared to the first six months of 2022. This represents 11.6% p.a. of the opening CSM attributable to the shareholder (30 June 2022: 11.1% p.a.).

The expected return on the shareholders' share of excess assets in Wealth has increased by £11 million to £21 million as a result of the increased expected rate of return from 2.4% p.a. over 2022, to 6.0% p.a. in the six months to 30 June 2023, driven by the rise in risk-free rates over 2022.

In Other, the six months to 30 June 2022 benefited from the release of a provision for new business expense overruns which has not repeated in this period.

Heritage

Adjusted operating profit before tax from Heritage has increased to £279 million (30 June 2022: £201 million) following an increase in the results from both the with-profits business and shareholder annuities that reflect the impact of the increase in yields.

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

£m	For the six months ended 30 June 2023	Restated 2022	For the year ended 31 December Restated 2022
CSM release	**111**	89	186
Expected return on excess assets	**17**	9	19
Other	**1**	1	(5)
Traditional with-profits	**129**	99	200

The CSM released in respect of the traditional with-profits business increased by £22 million compared to the first six months of 2022 for similar reasons as for Wealth PruFund. However, the amortisation rate for traditional with-profits business is higher than for PruFund business since the business is more mature and is running off faster. The amount of CSM released is equal to 14.0% p.a. of the opening traditional with-profits CSM attributable to the shareholder (30 June 2022: 13.6% p.a.).

The expected return on the shareholders' share of excess assets in Heritage has increased by £8 million to £17 million as a result of the increased expected rate of return from 2.4% p.a. over 2022, to 6.0% p.a. in the six months to 30 June 2023, driven by the rise in risk-free rates over 2022.

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

£m	For the six months ended 30 June 2023	Restated 2022	For the year ended 31 December Restated 2022
Expected return on excess assets	**101**	57	113
CSM release	**47**	42	89
Risk adjustment unwind	**9**	11	24
Asset trading and portfolio management actions	**12**	6	41
Experience variances	**(16)**	(10)	—
Other provisions and reserves	**(2)**	—	(28)
Shareholder annuities	**151**	106	239

The shareholder annuities result has increased by £45 million to £151 million. The recurring sources of earnings from the annuity book are primarily the returns on surplus assets in excess of IFRS 17 insurance liabilities based on long-term expected investment returns and the release of the CSM. The expected return on excess assets have increased by £44 million to £101 million as a result of the rise in yields during 2022.

The release of the CSM to profit on shareholder annuities was £47 million compared to £42 million in the period to 30 June 2022, benefiting from a higher opening CSM balance. The amount of CSM released represents 7.4% p.a. of the 30 June 2023 CSM before amortisation (30 June 2022: 6.9% p.a.).

Experience variances primarily relate to expense variances. Actual expenses were £6 million higher in the period due to additional one-off costs.

The credit quality of fixed income assets in the annuity portfolio remained strong over the first half of 2023. Over 98% of the debt securities held by the shareholder annuity portfolio are investment grade and only 20% are BBB. In addition 83% of the shareholder annuity portfolio is held in debt securities either categorised as Risk Free or Secured (including cash). Rating migrations resulted in very low level of downgrade experience (defined as movements in BBB notching and, otherwise, letter downgrades), with less than 0.5% of bonds in the portfolio being impacted. Overall a net upgrade has been experienced in the portfolio over the first six months of 2023.

Capital generation

The following table shows an analysis of operating capital generation:

£m	For the six months ended 30 June 2023	2022	For the year ended 31 December 2022
Wealth	**75**	88	155
– *of which With-profits*	**102**	96	180
– *in-force*	**118**	106	216
– *new business*	**(16)**	(10)	(36)
– *of which Platform and advice*	**(17)**	(9)	(25)
– *of which Other*	**(10)**	1	—
Heritage	**269**	266	503
– *of which With-profits*	**96**	100	192
– *of which Shareholder annuities and other*	**173**	166	311
Other Retail and Savings	**—**	16	(17)
Underlying capital generation	**344**	370	641
Model improvements	**—**	4	(17)
Assumption changes	**6**	—	158
Management actions and other (incl. experience variances)	**157**	54	53
Other operating capital generation	**163**	58	194
Operating capital generation	**507**	428	835

Underlying capital generation from Wealth decreased in the six months to 30 June 2023 to £75 million (30 June 2022: £88 million). The contribution from in-force with-profits business increased to £118 million (30 June 2022: £106 million) as a result of the increase in expected return given the rise in yields over 2022, partially offset by a reduction in the value of equity hedges. However, new business strain from the with-profits business has increased to £16 million (30 June 2022: £10 million); the increase in risk-free rates reduced the new business strain, but this is more than offset by the removal of a one-off benefit in the first half of 2022 from the release of a provision for new business expense overruns. Platform and advice and 'other' wealth business contributed negative capital generation, driven mainly by the operating losses discussed in the adjusted operating profit section above.

Underlying capital generation from Heritage of £269 million remained relatively consistent with the first six months of 2022. Traditional with-profits business generated underlying capital of £96 million during the six months to 30 June 2023 (30 June 2022: £100 million); this business is less sensitive to increases in yields compared to PruFund business, with the result that increases in capital generation driven by higher yields over 2022 were offset by losses on equity hedges. There also continued to be significant capital generation from the shareholder annuity and other business, contributing £173 million (30 June 2022:

£166 million). The underlying capital generation for annuity business has increased because the rise in yields over 2022 results in an increase in the expected return on surplus assets in the annuity portfolio.

Other operating capital generation increased to £163 million (30 June 2022: £58 million), largely reflecting the substantial £122 million capital benefit of an update to the strategic asset allocation mix of the With-Profits Fund. Asset trading in the annuity portfolio contributed another £23 million. In comparison, asset trading and hedging in the With-Profits Fund and annuity portfolio in the six months to 30 June 2022 totalled £124 million. The impact of non-market experience was broadly neutral, in comparison to a c.£50 million loss over the period to 30 June 2022.

Risk management statement

Overview of risk profile

The principal risks we are currently facing and to which we will continue to be exposed to remain broadly unchanged from those detailed in the 2022 Annual Report and Accounts, namely: business environment and market forces; sustainability and ESG; investment risk; financial risks (market, credit, corporate liquidity and insurance); operational risks (including resilience, third party suppliers and technology); change; people; regulatory compliance; reputational; and conduct.

Economic and geopolitical backdrop

The business environment and market outlook remain uncertain due to ongoing geopolitical conflicts and negative economic trends. The global economy continues to be impacted by high inflation, increases in interest rates, economic slowdown in key economies and commercial real estate market weakness. Markets stabilised during the first half of the year once worries regarding US mid-size banks and the potential impact of the Credit Suisse collapse receded.

Sustainability and ESG

As noted in our latest Sustainability Report, we anticipate the external ESG risk environment to continue to evolve. Climate change physical and transition risks are accelerating, biodiversity risks are emerging and social issues continue to be important. The importance of robust ESG risk management and controls will continue to grow as the industry develops its approach to ESG. This includes addressing issues such as: the quality of ESG data; greenwashing; enhancement of climate change methodologies; and the implementation of regulatory requirements.

Consumer Duty

On 31 July 2023 new FCA rules came into force establishing a Consumer Duty for new and existing products and services. The new conduct rules sets a higher standard of care than previous rules by requiring firms and their staff to act to deliver good outcomes for retail customers. To prepare for the new rules, projects were delivered to develop and implement enhancements to existing procedures and controls. A key element of this work was defining and putting in place “outcome monitoring” to enable business areas to assess, report and improve performance against the four outcomes (products and services; price and value; consumer understanding; and customer support) on an ongoing basis.

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:

- 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
- 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 2022, with the exception of the following change in the period, Ms. Fiona Clutterbuck resigned on 24 May 2023.

A list of current directors is maintained on the M&G plc website: www.mandgplc.com.

By order of the board:

Andrea Rossi Kathryn McLeland

Group Chief Executive Officer

19 September 2023

Chief Financial Officer

19 September 2023

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 2023 (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 2023;
- 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 conclusion

We conducted our review in accordance with International Standard on Review Engagements (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 ("ISRE (UK) 2410"). 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 ISRE (UK) 2410. 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

Chartered Accountants

London

19 September 2023

Condensed consolidated income statement (unaudited)

	Note	For the six months ended 30 June 2023 £m	Restated[i] 2022 £m	For the year ended 31 December Restated[i] 2022 £m
Insurance revenue	4	**1,815**	1,783	3,587
Insurance service expenses		**(1,495)**	(1,525)	(2,949)
Net (expenses)/income from reinsurance contracts held		**(5)**	23	(15)
Insurance service result		**315**	281	623
Interest revenue from financial assets not measured at FVTPL		**318**	49	217
Interest revenue from financial assets measured at FVTPL		**1,155**	1,073	2,203
Net change in investment contract liabilities without DPF		**(204)**	1,485	1,637
Net movement in expected credit losses		**(6)**	26	31
Other investment return		**(125)**	(12,704)	(18,097)
Investment return		**1,138**	(10,071)	(14,009)
Finance (expenses)/income from insurance contracts issued		**(654)**	9,113	11,561
Finance (expenses)/income from reinsurance contracts held		**(19)**	(343)	(472)
Net insurance finance (expenses)/income		**(673)**	8,770	11,089
Net insurance and investment result		**780**	(1,020)	(2,297)
Fee income	5	**508**	506	1,037
Other income		**30**	33	70
Administrative and other expenses	6	**(1,053)**	(1,214)	(2,255)
Finance costs	6	**(79)**	(80)	(162)
Movements in third party interest in consolidated funds		**(94)**	(55)	550
Share of profit from joint ventures and associates		**36**	63	38
Profit/(loss) before tax[ii]		**128**	(1,767)	(3,019)
Tax (charge)/credit attributable to policyholders' returns	7	**(27)**	342	379
Profit/(loss) before tax attributable to equity holders		**101**	(1,425)	(2,640)
Total tax (charge)/credit		**(53)**	624	964
Less tax charge/(credit) attributable to policyholders' returns	7	**27**	(342)	(379)
Tax (charge)/credit attributable to equity holders	7	**(26)**	282	585
Profit/(loss) for the period		**75**	(1,143)	(2,055)
Attributable to equity holders of M&G plc		**68**	(1,149)	(2,068)
Attributable to non-controlling interests		**7**	6	13
Profit/(loss) for the period		**75**	(1,143)	(2,055)
Earnings per share:				
Basic (pence per share)	8	**2.9**	(45.2)	(83.6)
Diluted (pence per share)	8	**2.9**	(45.2)	(83.6)

[i] The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.3.1 for further information. Additionally, following a review of the Group's presentation of tax positions within consolidated investment funds, comparative amounts have been restated from those previously reported with the restatement having no impact on profit for the period or net assets. See Note 1.2 for further information.

[ii] The profit/(loss) before tax comprises the pre-tax result attributable to equity holders and an amount equal and opposite to the tax charge attributable to policyholder returns. This is the formal measure of profit or loss before tax under IFRS, but it is not the result attributable to equity holders. This is principally because the corporate taxes of the Group include taxes borne by policyholders. These amounts are required to be included in the tax charge of the company under IFRS. The tax charge/(credit) attributable to policyholder returns is removed from the Group's total profit/(loss) before tax in arriving at the Group's profit/(loss) before tax attributable to equity holders. As the net of tax profits attributable to policyholders is zero, the Group's pre-tax profit attributable to policyholders is an amount equal and opposite to the tax charge attributable to policyholders included in the total tax charge.

Condensed consolidated statement of comprehensive income (unaudited)

	For the six months ended 30 June 2023 £m	Restated[i] 2022 £m	For the year ended 31 December Restated[i] 2022 £m
Profit/(loss) for the period	**75**	(1,143)	(2,055)
Items that may be reclassified subsequently to profit or loss:			
Exchange movements arising on foreign operations	**(28)**	12	20
Other comprehensive (loss)/income on items that may be reclassified subsequently to profit or loss	**(28)**	12	20
Items that will not be reclassified to profit or loss:			
(Loss)/gain on remeasurement of defined benefit pension scheme	**(34)**	95	29
Tax on remeasurement of defined benefit pension scheme	**8**	(22)	(7)
Other comprehensive (loss)/income on items that will not be reclassified to profit or loss	**(26)**	73	22
Other comprehensive (loss)/income for the period, net of related tax	**(54)**	85	42
Total comprehensive income/(loss) for the period	**21**	(1,058)	(2,013)
Attributable to equity holders of M&G plc	**21**	(1,064)	(2,026)
Attributable to non-controlling interests	**—**	6	13
Total comprehensive income/(loss) for the period	**21**	(1,058)	(2,013)

[i] The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.3.1 for further information. Additionally, following a review of the Group's presentation of tax positions within consolidated investment funds, comparative amounts have been restated from those previously reported with the restatement having no impact on profit for the year or net assets. See Note 1.2 for further information.

Condensed consolidated statement of financial position (unaudited)

	Note	As at 30 June 2023 £m	As at 31 December Restated[i] 2022 £m	As at 1 January Restated[i] 2022 £m
Assets				
Goodwill and intangible assets		**1,836**	1,877	1,615
Deferred acquisition costs		**28**	31	35
Defined benefit pension asset	10	**109**	155	38
Investment in joint ventures and associates accounted for using the equity method		**390**	413	469
Property, plant and equipment		**1,949**	1,953	2,536
Investment property		**15,806**	16,505	19,698
Deferred tax assets	7	**326**	445	114
Insurance contract assets	11	**47**	39	28
Reinsurance contract assets	11	**1,086**	1,082	1,715
Equity securities and pooled investment funds		**66,694**	70,127	74,069
Loans		**3,277**	3,234	5,880
Debt securities		**64,718**	62,821	81,059
Derivative assets		**3,168**	2,850	3,373
Deposits		**21,499**	21,399	17,632
Current tax assets	7	**270**	255	358
Accrued investment income and other debtors		**2,925**	2,404	2,833
Assets held for sale[ii]		**549**	684	1,023
Cash and cash equivalents		**4,743**	4,884	6,908
Total assets		**189,420**	191,158	219,383
Equity				
Share capital		**119**	119	130
Share premium reserve		**370**	370	370
Shares held by employee benefit trust		**(26)**	(70)	(93)
Treasury shares		**(44)**	(47)	(1)
Retained earnings		**15,214**	15,504	18,469
Other reserves		**(11,630)**	(11,613)	(11,660)
Equity attributable to equity holders of M&G plc		**4,003**	4,263	7,215
Non-controlling interests		**38**	48	49
Total equity		**4,041**	4,311	7,264
Liabilities				
Insurance contract liabilities	11	**140,000**	141,976	160,821
Reinsurance contract liabilities	11	**333**	348	546
Investment contracts without DPF	12	**12,015**	11,937	14,884
Third party interest in consolidated funds		**8,985**	10,389	12,636
Subordinated liabilities and other borrowings	13	**7,799**	7,537	8,930
Defined benefit pension liability	10	**—**	—	84
Deferred tax liabilities	7	**532**	795	1,718
Lease liabilities		**399**	420	413
Current tax liabilities	7	**64**	58	314
Derivative liabilities		**4,021**	4,185	2,689
Other financial liabilities		**2,424**	2,172	2,882
Provisions		**116**	90	138
Accruals, deferred income and other liabilities		**8,657**	6,768	6,064
Liabilities held for sale[ii]		**34**	172	—
Total liabilities		**185,379**	186,847	212,119
Total equity and liabilities		**189,420**	191,158	219,383

[i] The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.3.1 for further information. Additionally, following a review of the Group's presentation of tax positions within consolidated investment funds, comparative amounts have been restated from those previously reported with the restatement having no impact on profit for the year or net assets. See Note 1.2 for further information.

[ii] Assets held for sale on the consolidated statement of financial position as at 30 June 2023 includes £82m (31 December 2022: £158m, 1 January 2022: £127m) of seed capital classified as held for sale as it is expected to be divested within 12 months and £158m of investment property classified as held for sale (31 December 2022: £333m, 1 January 2022; £896m). £398m of property assets held for sale as at 31 December 2021 were transferred back to investment property during the year ended 31 December 2022. Additionally £309m (31 December 2022: £193m, 1 January 2022: £nil) of assets held for sale and £34m (31 December 2022: £172m, 1 January 2022: £nil) of liabilities held for sale are in relation to the Group's consolidated infrastructure capital private equity vehicles.

Condensed consolidated statement of changes in equity (unaudited)

	Share capital	Share premium	Shares held by employee benefit trust	Treasury shares	Retained earnings	Other reserves	Total equity attributable to equity holders of M&G plc	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
As at 1 January 2023	119	370	(70)	(47)	15,504	(11,613)	4,263	48	4,311
Profit for the period	—	—	—	—	68	—	68	7	75
Other comprehensive loss for the period	—	—	—	—	(26)	(21)	(47)	(7)	(54)
Total comprehensive income for the period	—	—	—	—	42	(21)	21	—	21
Shares purchased in buy-back	—	—	—	—	—	—	—	—	—
Dividends paid to equity holders of M&G plc	—	—	—	—	(310)	—	(310)	—	(310)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	(10)	(10)
Shares distributed by the trust or from Treasury shares	—	—	49	3	(49)	—	3	—	3
Vested employee share-based payments	—	—	—	—	27	(27)	—	—	—
Expense recognised in respect of share-based payments	—	—	—	—	—	29	29	—	29
Shares acquired by employee trusts	—	—	(5)	—	—	—	(5)	—	(5)
Tax effect of items recognised directly in equity	—	—	—	—	—	2	2	—	2
Net increase/(decrease) in equity	—	—	44	3	(290)	(17)	(260)	(10)	(270)
As at 30 June 2023	119	370	(26)	(44)	15,214	(11,630)	4,003	38	4,041

	Share capital	Share premium	Shares held by employee benefit trust	Treasury shares	Retained earnings	Other reserves	Total equity attributable to equity holders of M&G plc	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
As at 1 January 2022 as previously reported	130	370	(93)	(1)	16,550	(11,660)	5,296	49	5,345
Adjustment on initial application of IFRS 17 and IFRS 9, net of tax	—	—	—	—	1,919	—	1,919	—	1,919
Restated balance at 1 January 2022	130	370	(93)	(1)	18,469	(11,660)	7,215	49	7,264
(Loss)/profit for the period	—	—	—	—	(1,149)	—	(1,149)	6	(1,143)
Other comprehensive income for the period	—	—	—	—	73	12	85	—	85
Total comprehensive income for the period (restated)	—	—	—	—	(1,076)	12	(1,064)	6	(1,058)
Shares purchased in buy-back[ii]	(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 the trust	—	—	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	—	(1,471)	10	(1,448)	(4)	(1,452)
Restated balance at 30 June 2022	128	370	(78)	(1)	16,998	(11,650)	5,767	45	5,812

	Share capital	Share premium	Shares held by employee benefit trust	Treasury shares	Retained earnings	Other reserves	Total equity attributable to equity holders of M&G plc	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
As at 1 January 2022	130	370	(93)	(1)	16,550	(11,660)	5,296	49	5,345
Adjustment on initial application of IFRS 17 and IFRS 9, net of tax	—	—	—	—	1,919	—	1,919	—	1,919
Restated balance at 1 January 2022[i]	130	370	(93)	(1)	18,469	(11,660)	7,215	49	7,264
(Loss)/profit for the year	—	—	—	—	(2,068)	—	(2,068)	13	(2,055)
Other comprehensive income for the year	—	—	—	—	22	20	42	—	42
Total comprehensive income for the year (restated)	—	—	—	—	(2,046)	20	(2,026)	13	(2,013)
Shares purchased in buy-back[ii]	(11)	—	—	(47)	(456)	11	(503)	—	(503)
Dividends paid to equity holders of M&G plc	—	—	—	—	(465)	—	(465)	—	(465)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	(14)	(14)
Shares distributed by the trust	—	—	23	—	(22)	—	1	—	1
Vested employee share-based payments	—	—	—	—	23	(23)	—	—	—
Expense recognised in respect of share-based payments	—	—	—	—	—	34	34	—	34
Tax effect of items recognised directly in equity	—	—	—	—	1	5	6	—	6
Other movements	—	—	—	1	—	—	1	—	1
Net (decrease)/increase in equity	(11)	—	23	(46)	(2,965)	47	(2,952)	(1)	(2,953)
Restated balance at 31 December 2022	119	370	(70)	(47)	15,504	(11,613)	4,263	48	4,311

[i] The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.3.1 for further information.

[ii] On 27 October 2022 the share buy-back programme completed with a total consideration, including expenses and stamp duty of £503m. Shares with a nominal value of £11m were cancelled, leading to a capital redemption reserve for the same amount, disclosed within other reserves. For the period ended 30 June 2022: £85m had been purchased and shares with a nominal value of £2m cancelled, leading to a capital redemption reserve for the same amount.

Condensed consolidated statement of cash flows (unaudited)

	For the six months ended 30 June		For the year ended 31 December
	2023	Restated[i] 2022	Restated[i] 2022
	£m	£m	£m
Cash flows from operating activities:			
Profit/(loss) before tax	**128**	(1,767)	(3,019)
Non-cash and other movements in operating assets and liabilities included in profit/(loss) before tax:			
Investments	**791**	14,419	26,645
Other non-investment and non-cash assets	**(203)**	371	2,014
Insurance and reinsurance contract liabilities	**(2,043)**	(13,074)	(18,976)
Investment contract liabilities	**170**	(2,480)	(2,982)
Other liabilities (including operational borrowings)	**1,433**	1,619	(4,378)
Interest income and expense and dividend income	**(2,786)**	(2,401)	(4,491)
Other non-cash items	**366**	855	290
Operating cash items:			
Interest receipts	**1,517**	1,269	2,529
Interest payments[i]	**(98)**	(36)	(88)
Dividend receipts	**1,392**	1,240	2,220
Tax paid[ii]	**(149)**	(218)	(268)
Net cash flows from operating activities[iii]	**518**	(203)	(504)
Cash flows from investing activities:			
Purchases of property, plant and equipment	**(232)**	(404)	(573)
Proceeds from disposal of property, plant and equipment	**—**	1	1
Net cash paid on acquisition of subsidiaries, joint ventures and associates[iv]	**(22)**	(210)	(210)
Divestment in subsidiaries by consolidated private equity vehicles[v]	**55**	84	429
Investment in subsidiaries by consolidated private equity vehicles[v]	**—**	(15)	(15)
Net cash flows from investing activities	**(199)**	(544)	(368)
Cash flows from financing activities:			
Interest paid	**(93)**	(94)	(190)
Lease repayments	**(20)**	(17)	(30)
Shares purchased in buy-back	**—**	(85)	(503)
Dividends paid to equity holders of M&G plc	**(310)**	(311)	(465)
Dividends paid to non-controlling interests	**(10)**	(10)	(14)
Net cash flows from financing activities	**(433)**	(517)	(1,202)
Net decrease in cash and cash equivalents	**(114)**	(1,264)	(2,074)
Cash and cash equivalents at 1 January	**4,884**	6,908	6,908
Effect of exchange rate changes on cash and cash equivalents	**(27)**	44	50
Cash and cash equivalents at end of period	**4,743**	5,688	4,884

[i] The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.3.1 for further information. Additionally, following a review of the Group's presentation of tax positions within consolidated investment funds, comparative amounts have been restated from those previously reported with the restatement having no impact on profit for the year or net assets. See Note 1.2 for further information. Furthermore, interest payments on leases have been reallocated to Interest payments, these were previously reported within Lease repayments.

[ii] Tax paid for the six months ended 30 June 2023 includes £45m (30 June 2022: £56m, year ended 31 December 2022: £68m) paid on profit taxable at policyholder rather than shareholder rates.

[iii] Cash flows in respect of other borrowings of the With-Profits Fund, which principally relate to consolidated investment funds, are included within cash flows from operating activities.

[iv] Net cash (paid)/acquired on acquisition of subsidiaries, joint ventures and associates consists of £22m (six months ended 30 June 2022: £227m for the six months ended, year ended 31 December 2022: £227m) of cash paid, net of £17m for the six months ended 30 June 2022 and year ended 31 December 2022 cash acquired. Refer to note 2.2 for further information on shareholder acquisitions made in the period.

[v] Divestment/(investment) in subsidiaries by consolidated private equity vehicles represents the amount paid or received in relation to the purchase or sale of underlying investee companies held by the Group's consolidated private equity vehicles. As at 30 June 2023, £nil (six months ended 30 June 2022: £15m, year ended 31 December 2022: £15m) relates to investments in these vehicles and £55m (six months ended 30 June 2022: £84m, year ended 31 December 2022: £429m) divestment in these vehicles.

1 Basis of preparation and material accounting policies

1.1 Basis of preparation

The condensed consolidated financial statements for the half year ended 30 June 2023 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 our 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 and the key sources of estimation uncertainty applied in the condensed consolidated financial statements are consistent with those set out in the 2022 consolidated financial statements, except for the new standards, interpretations and amendments that became effective in the current period, as stated below.

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

The condensed consolidated financial statements do not include all the information and disclosures required in the Group's 2022 consolidated financial statements and do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. The Group's 2022 Annual Report and Accounts for the year ended 31 December 2022 were delivered to the Registrar of Companies. The report of the auditors PricewaterhouseCoopers 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. The consolidated financial statements from the full year 2022 and half year 2022 have been restated to reflect the retrospective application of IFRS 17, 'Insurance Contracts' and IFRS 9, 'Financial Instruments' from 1 January 2023, as outlined below in Note 1.3.1, and are unaudited.

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.

1.2 Restatement of tax related balances

The condensed consolidated statement of financial position as at 30 June 2022 has been restated following a presentational change in tax-related balances arising in certain consolidated property funds which were disclosed incorrectly in the prior period. The tax balances have been reallocated from Accruals, deferred income and other liabilities to Current tax liabilities and other taxes and Deferred tax liabilities.

The condensed consolidated income statement for the six months to 30 June 2022 has also been restated to reallocate tax expense from Administrative and other expenses to Tax charge attributable to policyholders' returns, to reflect this presentational change. As a result, Profit before tax for the six months to 30 June 2022 has been restated.

The reallocation from Profit before tax relates to policyholder tax and does not impact Profit before tax attributable to equity holders for the six months ended 30 June 2022 or total equity attributable to shareholders as at 30 June 2022.

The impact of the restatement on the condensed consolidated statement of financial position and condensed consolidated income statement is set out in the tables below:

	For the six months ended 30 June 2022 as previously reported £m	Adjustments £m	Restated[i] For the six months ended 30 June 2022 £m
Consolidated income statement:			
Administrative and other expenses	(1,474)	74	(1,400)
Loss before tax	(1,736)	74	(1,662)
Tax credit attributable to policyholders' returns	411	(74)	337
Total tax credit	691	(74)	617
Less tax credit attributable to policyholders' returns	411	(74)	337

	As at 30 June 2022 as previously reported £m	Adjustments £m	Restated[i] As at 30 June 2022 £m
Consolidated statement of financial position:			
Liabilities:			
Deferred tax liabilities	732	352	1,084
Current tax liabilities	80	34	114
Accruals, deferred income and other liabilities	10,263	(386)	9,877
Other	190,306	—	190,306
Total liabilities	201,381	—	201,381

i Restated amounts are prior to IFRS 17 and IFRS 9 adjustments being applied.

In the consolidated statement of cash flows, £74m has been reallocated from Profit before tax and split between Other liabilities of £(88)m, Other non-cash items of £40m and Tax paid of £(26)m, to reflect the change in presentation. The reallocation from Profit before tax relates to policyholder tax and does not impact Profit before tax attributable to equity holders. Comparatives in the impacted notes to the condensed consolidated financial statements have also been restated.

1.3 New accounting pronouncements

1.3.1 New accounting pronouncements adopted by the Group

In these financial statements, the Group has applied IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments', for the first time. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 17 Insurance Contracts

IFRS 17 replaces IFRS 4 Insurance Contracts for annual periods beginning on or after 1 January 2023.

The Group has applied the standard retrospectively by applying the transitional provisions in Appendix C of IFRS 17. The Group has made the election under IFRS 17 to not present certain quantitative information required by IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors as follows:

Where a new standard is adopted, IAS 8 requires for the current period and each prior period presented, the amount of the adjustment:

(i) for each financial statement line item affected; and

(ii) if IAS 33 Earnings per Share applies to the entity, for basic and diluted earnings per share;

The nature of the changes in accounting policies can be summarised, as follows:

(i) Recognition, measurement and presentation of insurance contracts

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts with discretionary participation features (DPF). It introduces a model that measures groups of contracts based on the Group's estimates of the present value of future cash flows that are expected to arise as the Group fulfills the contracts, an explicit risk adjustment for non-financial risk and a contractual service margin ("CSM").

Under IFRS 17, insurance revenue in each reporting period represents the provision of services arising from the group of insurance contracts at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. This includes amounts relating to the changes in the liability for remaining coverage and the allocation of the portion of the premiums that relate to recovery of insurance acquisition cash flows. Investment components are not included within insurance revenue.

Insurance finance income and expenses, are presented separately from insurance revenue and insurance service expenses.

Previously, acquisition costs in relation to insurance contracts were recognised and presented under IFRS 4 as separate assets from the related insurance contract liabilities until those costs were included in profit or loss. Under IFRS 17, insurance acquisition cash flows in relation to all contracts in scope that arise before the recognition of the related insurance contracts are recognised as separate assets and are tested for recoverability. These assets are presented in the carrying amount of the related portfolio of contracts and are derecognised once the related contracts have been recognised.

(i) Recognition, measurement and presentation of insurance contracts (continued)

There is no change in accounting policy for investment contracts without DPF which are not in scope of IFRS 17. For these contracts, deferred acquisition costs continue to be presented as separate assets and amortised into profit or loss in line with revenue.

Income and expenses from reinsurance contracts other than insurance finance income and expenses are now presented as a single net amount in profit or loss. Previously, amounts recovered from reinsurers and reinsurance premium ceded were presented separately.

For an explanation of how the Group accounts for insurance and reinsurance contracts under IFRS 17, see Note 1.4 and Note 11.

(ii) Transition

Changes in accounting policies resulting from the adoption of IFRS 17 have been applied using a fully retrospective approach to the extent practicable. Under the fully retrospective approach, at 1 January 2022 the Group:

identified, recognised and measured each group of insurance contracts, investment contracts with discretionary participation features and reinsurance contracts as if IFRS 17 had always been applied;

derecognised previously reported balances that would not have existed if IFRS 17 had always been applied, such as the unallocated surplus of the With-Profits Fund; and

recognised any resulting net difference in equity, after allowing for any deferred tax adjustment.

In addition, there are also changes in presentation in the condensed consolidated statement of financial position line items from the adoption of IFRS 17:

The inclusion of insurance receivables and payables balances as cash flows in the measurement of insurance and reinsurance held contracts.

The presentation of reinsurance held contracts as an asset or liability based on the net position of all contracts within a portfolio, rather than the previous IFRS 4 treatment which was recognised on an individual contract basis.

Investment contract liabilities with discretionary participation features within the scope of IFRS 17 are present within insurance contract liabilities.

Where it is impracticable to apply a fully retrospective approach to a group of contracts, then the Group has, as permitted under IFRS 17, used either the modified retrospective approach or the fair value approach.

The Group has applied the following approaches to valuing the CSM on transition to IFRS 17:

Transition approach	Applied to products
Fully Retrospective Approach (FRA)	90:10 With-Profits contracts written 2020-2021[i]
	PruProtect contracts written June 2010 – June 2016[ii]
	Non-Profit protection in Poland written 2020-2021
	Rothesay reinsurance treaty[iii]
Modified Retrospective Approach (MRA)	90:10 With-Profits contracts written 2004-2019[i]
	PruProtect contracts written before June 2010[ii]
Fair Value Approach (FVA)	90:10 With-Profits contracts written before 2004[i]
	All other insurance and reinsurance contracts written up to 2021

i. Shareholder transfers for most contracts in the WPSF are up to one-ninth of the cost of bonus declared to policyholders, in accordance with the Articles of Association. These contracts are referred to as 90:10 business.

ii. PruProtect is a non-profit contract providing life and sickness cover that the Group issued through a joint venture arrangement with Vitality Life.

iii. The Rothesay Part VII transfer in December 2021, which involved the sale of an annuity portfolio from M&G plc to Rothesay Life PLC, and consequential update to the reinsurance treaty for the retained annuity business is deemed to constitute a derecognition event. Therefore, for IFRS 17 purposes, the inception date of the reinsurance contract is 15 December 2021 and so is transitioned under FRA.

The impact of adopting IFRS 17 on the total equity at 1 January 2022 are presented in the condensed consolidated statement of changes in equity.

Fully retrospective approach

The Group has applied the fully retrospective approach on transition to products as shown above. On transition to IFRS 17, the Group has applied the fully retrospective approach unless impracticable.

The reasons why the Group considers the fully retrospective approach to be impracticable for some contracts include:

The effects of retrospective application are not determinable because the information required was not collected, or was not collected with sufficient granularity, or is unavailable because of system migrations or other reasons.

The fully retrospective approach requires assumptions about what the Group management's intentions would have been in previous periods that cannot be made without the use of hindsight. These include judgements about the compensation the Group requires for bearing non-financial risk in order to determine the risk adjustment. As the Group was established as a separate entity in 2019, the Group's current business management and assumptions are not appropriate prior to 2020 and choosing to use these or other assumptions would require the application of hindsight. This rationale does not apply to PruProtect contracts, which have been managed through a joint venture and for which the approach to managing the business prior to 2019 (and back until 2010) is known without the need to apply hindsight.

Where the fully retrospective approach is impracticable for the valuation of a portfolio of insurance contracts written then it is also impracticable for the valuation of any associated reinsurance portfolio as measurement requires similar considerations.

Modified retrospective approach

The objective of the modified retrospective approach is to achieve the closest outcome to retrospective application possible using reasonable and supportable information available without undue cost or effort. The Group has applied each of the following modifications only to the extent that it does not have reasonable and supportable information to apply IFRS 17 retrospectively.

Assessments at inception or on initial recognition

The Group has determined the identification of groups of contracts and classification of contracts using information available at contract inception where reasonable and supportable information is available. Where the Group does not have reasonable and supportable information this has been assessed based on information at 1 January 2022.

Groups of contracts valued under the modified retrospective approach contain contracts issued more than one year apart.

90:10 with-profits contracts written 2004-2019

For groups of with-profits contracts issued between 2004 and 2019 transitioning under the modified retrospective approach, the Group has determined the CSM at 1 January 2022 by calculating a proxy (as permitted in IFRS 17) for the total CSM for all services to be provided from inception as the fair value of the underlying items at 1 January 2022 minus the fulfilment cash flows at 1 January 2022, adjusted for:

Amounts charged to policyholders (including charges deducted from the underlying items) before 1 January 2022.

Amounts paid before 1 January 2022 that did not vary based on the underlying items.

The change in the risk adjustment for non-financial risk caused by the release from risk before 1 January 2022, which was estimated by reference to the release of risk for similar contracts that the Group issued at 1 January 2022.

If the calculation resulted in a CSM, the Group measures the CSM at 1 January 2022 by deducting the CSM related to services provided before 1 January 2022. The CSM related to services provided before 1 January 2022 was determined by comparing the remaining coverage units at 1 January 2022 with coverage units prior to 1 January 2022.

If the calculation resulted in a loss component then the Group adjusted the loss component to nil and increased the liability for remaining coverage excluding the loss component by the same amount.

PruProtect contracts written before June 2010

The PruProtect contracts written before June 2010 are transitioning under the modified retrospective approach by applying the modification that contracts issued more than one year apart are grouped together.

Fair value approach

The Group has applied the fair value approach on transition for contracts for which the fully retrospective approach was considered impracticable, and for which reasonable and supportable information to apply the modified retrospective approach was not available without undue cost or effort.

The Group has determined the CSM of the liability for remaining coverage at the transition date, as the difference between the fair value of the group of insurance contracts and the fulfilment cash flows measured at that date. In determining fair value, the Group has applied the requirements of IFRS 13 Fair Value Measurement.

Using Level 3 inputs in accordance with the IFRS 13 hierarchy, the Group has measured the fair value of the contracts as the sum of:

The best estimate of the liability, determined using a discounted cash flow technique and assumptions used for Solvency II reporting; and

the compensation a market participant would require for taking on the obligation, over and above the best estimate liability, determined using a cost of capital approach, and for with-profits contracts an amount to reflect the risk around the quantum of future shareholder transfers.

For reinsurance contracts held the calculation above has been carried out twice, using gross of reinsurance cash flows and net of reinsurance cash flows. The fair value of reinsurance contracts held has been determined as the difference between the two amounts.

The allowance for the cost of capital is based on:

Capital at 135% of the Group Solvency II internal model Solvency Capital Requirements (SCR) on a diversified basis, plus Group Solvency II Risk Margin less allowance for the Group's Transitional Measure on Technical Provisions (TMTP) for pre-2016 incepting contracts.

Cost of capital at 7%.

Investment return based on assets backing capital, net of investment management expenses and corporation tax.

In addition to the allowance for the cost of capital, key assumptions underpinning the determination of the fair value are set out below:

Discount rate

The discount rate used for with-profits contracts is the prescribed Solvency II risk-free curve.

The discount rate used for non-profit annuity contracts is the prescribed Solvency II risk-free curve plus the Group's matching adjustment. The matching adjustment for the shareholder non-profit annuities is 106 basis points ("bps") per annum and for the non-profit annuities in the With-Profits Fund is 94 bps per annum.

Longevity assumptions

The longevity assumptions for annuity contracts are consistent with the best estimate basis used for the Group's Solvency II reporting as at 31 December 2021, as disclosed in the Group Solvency and Financial Condition Report as at 31 December 2021.

Shareholder transfers

For with-profits contracts the level of compensation required to reflect the risk in relation to future shareholder transfers is 20% of the present value of future shareholder transfers.

Expense assumptions

Renewal expenses are based on the Group's best estimate view and are considered to be in line with what other market participants would assume.

Investment management fees are negotiated on an arms-length basis, including those for the assets managed by the Group's asset managers. Therefore the Group assumes that a market participant would adopt comparable investment management expense assumptions.

The fair value was calculated at an aggregate level based on availability of Solvency II inputs. The fair value was then allocated to IFRS 17 portfolios based on estimates of the underlying inputs at a more granular level based on consideration of the characteristics of the portfolio and output from the SCR reporting processes.

The fair value has been calibrated based on analysis of the Group's own data and market data including public information on recent transactions (to the extent relevant and available).

The Group has determined the identification of groups of contracts and classification of contracts using information available at 1 January 2022. Groups of policies valued under the fair value approach contain contracts issued more than one year apart. For contracts valued under the General Measurement Model, locked-in discount rates and financial assumptions applied after transition have been determined as at 1 January 2022.

The tables below show selected sensitivities of the fair value to the assumed parameters.

Sensitivity of the fair value of with-profits business to the compensation required in relation to shareholder transfers

	Parameter	Fair value	Impact on fair value
		£m	£m
Base	20%	42,130	n/a
Sensitivity	25%	42,233	103

Sensitivity of the fair value to the cost of capital rate

		With-profits contracts		Annuity contracts	
	Parameter	Fair value	Impact on fair value	Fair value	Impact on fair value
		£m	£m	£m	£m
Base	7%	42,130	n/a	28,670	n/a
Sensitivity	6%	42,123	(7)	28,379	(291)
Sensitivity	8%	42,135	5	28,922	252

Fulfilment cash flows

The fulfilment cash flows at 1 January 2022 have been measured in accordance with the accounting policies set out in Note 1.4. For this purpose the key assumptions are set out below.

The risk-free yield curve for with-profits and annuity contracts is shown in the table below:

Risk-free yield curve (excluding illiquidity premium)

	1 year	5 years	10 years	15 years	20 years
As at 1 January 2022	0.76%	1.05%	0.95%	0.91%	0.88%

For with-profits contracts, future investment return assumptions and discount rates (using a bottom-up approach) are set at the above risk-free yield curve plus an illiquidity premium of 34 bps.

For annuity contracts, discount rates (using a top-down approach) are set at the above risk-free yield curve plus an illiquidity premium of 109 bps for shareholder-backed annuities and 99 bps for annuities in the With-Profits Fund.

The longevity assumptions for annuity contracts are consistent with the best estimate basis used for the Group's Solvency II reporting, as disclosed in the Group Solvency and Financial Condition Report as at 31 December 2021.

Comparison with IFRS 4

The timing of profit recognition changed significantly under IFRS 17. Under IFRS 4 profits are recognised as follows:

For with-profits contracts that share in the profit arising in the main With-Profits Fund, profits are recognised when bonuses are added to policies. As a substantial proportion of the total bonus is determined when claims are paid to policyholders, a considerable part of the profit is recognised when policies terminate.

For non-profit contracts (notably annuities) a substantial proportion of the lifetime expected profit is recognised at policy inception, reflecting the difference between the premiums received less costs incurred and the prudent liability established for the expected future cash flows.

In contrast, IFRS 17 does not allow upfront profit recognition for profitable contracts but rather requires that profit is recognised as services are provided to the policyholders.

Other differences in the measurement of the liabilities include:

IFRS 17 requires that the discount rates include an illiquidity premium. The IFRS 4 discount rates for with-profits contracts in particular do not include an illiquidity premium. For annuity contracts, the IFRS 4 discount rates are similar to IFRS 17.

IFRS 4 liabilities for non-profit contracts are determined using implicit prudent margins in the demographic and expense assumptions. In contrast, IFRS 17 requires a separate risk adjustment for non-financial risks which may differ from the value of the IFRS 4 margins.

Under IFRS 4, the unallocated surplus of the With-Profits Fund represented the excess of the fund's assets over policyholder liabilities that is yet to be appropriated between policyholders and shareholders with no allocation to equity. There is no unallocated surplus under IFRS 17 although IFRS 17 requires a liability to be held for the policyholders' share of the surplus assets in the With-Profits Fund. Under IFRS 17 there is equity for the first time relating to the With-Profits Fund.

The main drivers of change in equity attributable to equity holders as reported in the consolidated statement of financial position on adoption of IFRS 17 on 1 January 2022 are as follows:

Driver	Description	£m
	Equity attributable to equity holders as previously reported	**5,345**
Liability remeasurement	Includes impact of: – Removing the prudent margins required under IFRS 4 for annuity liabilities (primarily for demographic and expenses assumptions). – Different basis for determining discount rate for both annuity and with-profit liabilities.	1,334
Value of shareholder transfers	Under IFRS 17 the present value of all future shareholder transfers are allowed for as a negative liability through the Variable Fee component (broadly the entity's expected future profit).	3,954
CSM	Introduction of CSM which represents unearned profit on insurance contracts and investment contracts with DPF which will be released over the life of the contract in line with the provision of service.	(4,400)
Risk adjustment	Introduction of risk adjustment which represents compensation for non-financial risk and replaces the IFRS 4 prudent margins.	(487)
Shareholder interest in excess assets in the With-Profits Fund	As a consequence of applying the mutualisation requirements of IFRS 17, a portion of the with-profits estate is allocated to shareholders. Under IFRS 4, this was included within the unallocated surplus of the With-Profits Fund.	1,687
Tax and other	Impact of change in deferred tax and other minor effects.	(169)
	Remeasurement of equity attributable to equity holders on adoption	1,919
	Equity attributable to equity holders restated	**7,264**

IFRS 9 Financial Instruments

IFRS 9 replaced IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018. However, the Group elected, under the amendments to IFRS 4 to apply the temporary exemption from IFRS 9, deferring the initial application date of IFRS 9 to align with the initial application of IFRS 17.

The Group has applied IFRS 9 retrospectively and restated comparative information for the six months ended 30 June 2022 and for the year ended 31 December 2022 for financial instruments in the scope of IFRS 9. Differences arising from the adoption of IFRS 9 have been recognised in retained earnings as of 1 January 2022 and presented in the condensed consolidated statement of changes in equity and have been disclosed below.

The nature of the changes in accounting policies can be summarised as follows:

(i) Classification of financial assets and financial liabilities

IFRS 9 includes three classification categories for financial assets: measured at amortised cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value Through Profit or Loss (FVTPL). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. It eliminates the previous categories of held-to-maturity investments, loans and receivables, and available-for-sale financial assets applied by IAS 39.

IFRS 9 has not had a significant effect on the Group's financial instruments classification as the majority were already measured at FVTPL. The Group does not hold any assets measured at FVOCI.

(ii) Impairment of financial assets

IFRS 9 replaced the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' model for recording impairment. The new impairment model applies to financial assets measured at amortised cost and contract assets under IFRS 15. The expected credit loss model results in earlier recognition of impairment as compared to the previous model which required objective evidence of impairment to exist before any impairment was recorded.

(iii) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

The comparative period has been restated adopting the overlay approach.

The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2023.

The determination of the business model within which a financial asset is held.

The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

If a financial asset had low credit risk at 1 January 2023, then the Group determined that the credit risk on the asset had not increased significantly since initial recognition.

The adoption of IFRS 9 has not had a material impact on the Group's basic or diluted EPS for the six months ended 30 June 2023, 30 June 2022 and 31 December 2022.

Details of the changes and implications resulting from the adoption of IFRS 9 are presented below.

(iv) Effect of initial application

Classification of financial assets and financial liabilities

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities as at 1 January 2023.

	As at 31 December 2022	As at 1 January 2023	As at 31 December 2022	As at 1 January 2023
	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
			£m	£m
Financial assets				
Equity securities and pooled investment funds	FVTPL designated	FVTPL mandatory	70,127	70,127
Loans	Loans and receivables	FVTPL mandatory	2,114	2,018
Loans	FVTPL mandatory	FVTPL mandatory	1,216	1,216
Debt securities	FVTPL designated	FVTPL mandatory	62,821	62,821
Derivative assets	FVTPL held for trading	FVTPL mandatory	2,850	2,850
Deposits	Amortised cost	Amortised cost	21,401	21,399
Accrued investment income and other debtors[i]	Loans and receivables	Amortised cost	2,408	2,404
Cash and cash equivalents	Loans and receivables	Amortised cost	4,884	4,884
Total financial assets			167,821	167,719

[i] Original carrying value differs from that published in the Annual Report and Accounts for the year ended 31 December 2022 following reclassifications.

	As at 31 December 2022	As at 1 January 2023	As at 31 December 2022	As at 1 January 2023
	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFR 9
			£m	£m
Financial liabilities				
Investment contract liabilities without DPF	FVTPL designated	FVTPL designated	11,937	11,937
Third party interest in consolidated funds	FVTPL designated	FVTPL designated	10,389	10,389
Subordinated liabilities and other borrowings	Amortised cost	Amortised cost	7,537	7,537
Derivative liabilities	FVTPL held for trading	FVTPL mandatory	4,185	4,185
Other financial liabilities	Amortised cost	Amortised cost	2,172	2,172
Accruals, deferred income and other liabilities	FVTPL designated	FVTPL designated	246	246
Accruals, deferred income and other liabilities[i]	Amortised cost	Amortised cost	6,522	6,522
Total financial liabilities			42,988	42,988

[i] Original carrying value differs from that published in the Annual Report and Accounts for the year ended 31 December 2022 following reclassifications.

The Group's accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 1.4. The application of the revised Group's accounting policies resulted in the reclassifications set out in the table above and explained below.

As at 31 December 2022, Loans of £2,114m which have previously been classified as loans and receivables are managed on a fair value basis and are, therefore, measured at FVTPL on the basis of the business model for managing loans under IFRS 9.

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition on 1 January 2023.

	31 December 2022 IAS 39	Reclassification	Remeasurement	1 January 2023 IFRS 9
	£m	£m	£m	£m
FVTPL:				
Equity securities and pooled investment funds	70,127	—	—	70,127
Loans	1,216	2,114	(96)	3,234
Debt securities	62,821	—	—	62,821
Derivative assets - net of derivative liabilities	(1,335)	—	—	(1,335)
Total FVTPL	132,829	2,114	(96)	134,847

	31 December 2022 IAS 39	Reclassification	Remeasurement	1 January 2023 IFRS 9
	£m	£m	£m	£m
Amortised cost:				
Loans	2,114	(2,114)	—	—
Deposits	21,401	—	(2)	21,399
Accrued investment income and other debtors	2,408	—	(4)	2,404
Cash and cash equivalents	4,884	—	—	4,884
Total amortised cost	30,807	(2,114)	(6)	28,687

As at 1 January 2023 the transition to IFRS 9 did not result in reclassification or remeasurement of the carrying amounts of financial liabilities.

Impairment of financial assets

The following table reconciles the closing impairment allowance under IAS 39 as at 31 December 2022 with the opening expected credit losses (ECLs) under IFRS 9 as at 1 January 2023.

	Impairment allowance under IAS 39 at 31 December 2022	Remeasurement	ECLs under IFRS 9 at 1 January 2023
	£m	£m	£m
Loans	30	(30)	—
Deposits	—	2	2
Accrued investment income and other debtors	37	4	41
Cash and cash equivalents	—	—	—
Total impairment allowances/ECLs	67	(24)	43

IFRS 7 includes disclosure requirements at the date of initial application of IFRS 9 (1 January 2023). As the Group has restated comparative balances effective 1 January 2022, the following additional tables have been included to provide the user with additional information about the transition to IFRS 9 and the adjustments to opening balances of retained earnings as at 1 January 2022, in conjunction with the effects of the transition to IFRS 17 on that date.

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2022 is, as follows:

	As at 31 December 2021	As at 1 January 2022	As at 31 December 2021	As at 1 January 2022
	Original classification under IAS 39	New classification under IFRS 9	Original classification amount under IAS 39	New carrying amount under IFRS 9
	£m	£m	£m	£m
Financial assets				
Equity securities and pooled investment funds	FVTPL designated	FVTPL mandatory	74,069	74,069
Loans	Loans and receivables	FVTPL mandatory	2,534	2,605
Loans	FVTPL designated	FVTPL mandatory	3,275	3,275
Debt securities	FVTPL designated	FVTPL mandatory	81,059	81,059
Derivative assets	FVTPL held for trading	FVTPL mandatory	3,373	3,373
Deposits	Loans and receivables	Amortised cost	17,633	17,632
Accrued investment income and other debtors[i]	Loans and receivables	Amortised cost	2,837	2,833
Cash and cash equivalents	Loans and receivables	Amortised cost	6,908	6,908
Total financial assets			191,688	191,754

[i] Original carrying value differs from that published in the Annual Report and Accounts for the year ended 31 December 2021 following reclassifications.

	As at 31 December 2021	As at 1 January 2022	As at 31 December 2021	As at 1 January 2022
	Original classification under IAS 39	New classification under IFRS 9	Original classification amount under IAS 39	New carrying amount under IFRS 9
	£m	£m	£m	£m
Financial liabilities				
Investment contract liabilities without DPF	FVTPL designated	FVTPL designated	14,884	14,884
Third party interest in consolidated funds	FVTPL designated	FVTPL designated	12,636	12,636
Subordinated liabilities and other borrowings	FVTPL designated	FVTPL designated	1,159	1,159
Subordinated liabilities and other borrowings	Amortised cost	Amortised cost	7,771	7,771
Derivative liabilities	FVTPL designated	FVTPL designated	2,689	2,689
Other financial liabilities	Amortised cost	Amortised cost	2,882	2,882
Accruals, deferred income and other liabilities	FVTPL designated	FVTPL designated	403	403
Accruals, deferred income and other liabilities[i]	Amortised cost	Amortised cost	5,661	5,661
Total financial liabilities			48,085	48,085

[i] Original carrying value differs from that published in the Annual Report and Accounts for the year ended 31 December 2021 following reclassifications.

The tables above and below explain the reclassifications of assets and liabilities on application of the new Group accounting policies for classification of financial instruments under IFRS 9 set out in Note 1.4.

As at 31 December 2021, Loans of £2,534m which have previously been classified as loans and receivables under IAS 39, are managed on a fair value basis and are, therefore, measured at FVTPL on the basis of the business model for managing loans under IFRS 9.

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2022.

	31 December 2021 IAS 39	Reclassification	Remeasurement	1 January 2022 IFRS 9
	£m	£m	£m	£m
FVTPL:				
Equity securities and pooled investment funds	74,069	—	—	74,069
Loans	3,275	2,534	71	5,880
Debt securities	81,059	—	—	81,059
Derivative assets - net of derivative liabilities	684	—	—	684
Total FVTPL	159,087	2,534	71	161,692

	31 December 2021 IAS 39	Reclassification	Remeasurement	1 January 2022 IFRS 9
	£m	£m	£m	£m
Amortised cost:				
Loans	2,534	(2,534)	—	—
Deposits	17,633	—	(1)	17,632
Accrued investment income and other debtors	2,837	—	(4)	2,833
Cash and cash equivalents	6,908	—	—	6,908
Total amortised cost	29,912	(2,534)	(5)	27,373

As at 1 January 2022 the transition to IFRS 9 did not result in reclassification or remeasurement of the carrying amounts of financial liabilities.

The following table reconciles the closing impairment allowance under IAS 39 as at 31 December 2021 with the opening loss allowance under IFRS 9 as at 1 January 2022.

	Impairment allowance under IAS 39 at 31 December 2021	Remeasurement	ECLs under IFRS 9 at 1 January 2022
	£m	£m	£m
Loans	18	(18)	—
Deposits	—	1	1
Accrued investment income and other debtors	77	4	81
Cash and cash equivalents	—	—	—
Total impairment allowances/ECLs	95	(13)	82

The impact on key financial statement lines in the Group's consolidated statement of financial position on transition to IFRS 9 and IFRS 17 is presented below:

Financial statement line item	31 December 2021 as previously reported	Reclassification due to adoption of IFRS 9 and IFRS 17	Remeasurement due to adoption of IFRS 9 and IFRS 17	1 January 2022 restated
	£m	£m	£m	£m
IFRS 9				
Equity securities and pooled investment funds	74,069	—	—	74,069
Loans	5,809	—	71	5,880
Debt securities	81,059	—	—	81,059
Derivative assets - net of derivative liabilities	684	—	—	684
Cash and cash equivalents	6,908	—	—	6,908
IFRS 17				
Reinsurance contract assets	1,669	—	46	1,715
Reinsurance contract liabilities	—	—	(546)	(546)
Insurance contract assets	—	—	28	28
Insurance contract liabilities	(63,223)	(99,466)	1,868	(160,821)
Investment contract liabilities with discretionary participation features	(82,743)	82,743	—	—
Investment contract liabilities without discretionary participation features	(14,884)	—	—	(14,884)
IFRS 9 and IFRS 17				
Accrued investment income and other debtors	2,647	—	186	2,833
Unallocated surplus of the With-Profits Fund	(16,723)	16,723	—	—
Other	10,073	—	266	10,114
Equity attributable to equity holders	5,345	—	1,919	7,039

Other accounting announcements adopted by the Group

The Group has also adopted the following standards, interpretations and amendments which became effective from 1 January 2023:

Disclosure of Accounting Policies (Amendments to IAS 1), issued in March 2022

- Definition of Accounting Estimates (Amendments to IAS 8), issued in March 2022
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12), issued in August 2022
- International Tax Reform - Pillar Two Model Rules (Amendments to IAS 12), issued in May 2023

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

1.4 Material accounting policies

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 2022 consolidated financial statements, except for changes in relation to the adoption of IFRS 17 and IFRS 9 as set out above. The updated accounting policies for Insurance contracts and Financial instruments are set out below.

1.4.1 Insurance Contracts

(i) Contracts within the scope of IFRS 17

An entity must apply IFRS 17 to determine the requirements for recognition, measurement, presentation and disclosure of:

- Insurance contracts (including reinsurance contracts issued);
- Reinsurance contracts held; and
- Investment contracts with discretionary participation features (DPF) issued, provided the entity also issues insurance contracts.

IFRS 17 defines insurance contracts as contracts under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Reinsurance contracts are insurance contracts issued by one entity (the reinsurer) to compensate another entity for claims arising from one or more insurance contracts issued by that other entity (underlying contracts).

The Group judges that a contract transfers significant insurance risk if there is at least one scenario where the amounts that could be payable under the contract represent 10% or more than the amounts payable if the insured event does not occur.

In addition to accepting insurance risk from the insurance contracts issued the Group is exposed to financial risk from the insurance and investment contracts it issues and reinsurance contracts it holds.

The Group's reinsurance contracts are predominantly contracts held under which risks are transferred to an external third-party. The Group has one reinsurance contract under which it accepts risks from with-profits contracts issued by another insurer.

Insurance contracts may be issued and reinsurance contracts may be initiated by the Group, or they may be acquired in a business combination or in a transfer of contracts that do not form a business. All references in these accounting policies to 'insurance contracts' and 'reinsurance contracts' include contracts issued, initiated or acquired by the Group, unless otherwise stated.

Investment contracts with DPF have the legal form of insurance contracts but do not transfer significant insurance risk and so are classified as financial instruments. Nevertheless such contracts fall within the scope of IFRS 17.

An investment contract with DPF is a financial instrument that provides a particular investor with the contractual right to receive, as a supplement to an amount not subject to the discretion of the issuer, additional amounts:

- that are expected to be a significant portion of the total contractual benefits;
- the timing or amount of which are contractually at the discretion of the issuer; and
- that are contractually based on:
  - the returns on a specified pool of contracts or a specified type of contract;
  - realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
  - the profit or loss of the entity or fund that issues the contract.

The Group judges that the additional discretionary benefits are significant when they are expected to be at least 5% of the total contractual benefits.

The Group's investment contracts with DPF comprise the with-profits business that does not transfer significant insurance risk. This includes investments in the PruFund range of funds issued to individual investors.

Investment contracts without DPF are not accounted for under IFRS 17 but instead fall within the scope of IFRS 9. For the Group these primarily comprise unit-linked contracts that do not transfer significant insurance risk. Also within the scope of IFRS 9 are contracts issued to corporate bodies to facilitate investment in PruFund, which as a result of cancellation rights included in those contracts, are judged by the Group to not provide significant discretionary benefits.

Some investment contracts issued by the Group provide policyholders with the option to invest their premiums in both unit-linked funds and with-profits funds (including PruFund). The Group accounts for such contracts as two separate in substance contracts enabling the investment in with-profits and PruFund to be accounted for under IFRS 17 and the investment in unit-linked funds to be accounted for under IFRS 9.

The Group has previously issued and still holds a book of equity release mortgages. These contracts contain a no negative equity guarantee which ensures that should the policyholder pass away or move into residential care during the term of the instrument and the accrued loan value is in excess of the sale proceeds of the house, then the policyholder's beneficiaries would not have to repay any excess. This feature has been assessed to consider whether it gives rise to insurance risk. The Group judges the equity release mortgages meet the definition of an insurance contract but the compensation for insured events is limited to the amount otherwise required to settle the policyholder's obligation created by the contract. In this circumstance IFRS 17 permits the issuer of contracts to choose whether to account for these contracts under IFRS 17 or IFRS 9. The Group has opted to account for these contracts under IFRS 9.

(ii) Separating components

At inception, the Group must identify and separate the following components from contracts within the scope of IFRS 17 and account for the components as if they were stand-alone financial instruments:

- derivatives embedded in the contract whose economic characteristics and risks are not closely related to those of the host contract, and where the component issued as standalone contract is not itself a contract that falls within the scope of IFRS 17; and
- distinct investment components other than investment components with discretionary participation features: i.e. investment components that are not highly inter-related with the insurance components and for which contracts with equivalent terms are sold, or could be sold, separately in the same market or the same jurisdiction.

After separating any financial instrument components, the Group must separate any promises to transfer to policyholders distinct goods or services other than insurance coverage and investment services and account for them as separate contracts with customers (i.e. these are accounted for under IFRS 15). A good or service is distinct if the policyholder can benefit from it either on its own or with other resources that are readily available to the policyholder. A good or service is not distinct and is accounted for together with the insurance component if the cash flows and risks associated with the good or service are highly inter-related with the cash flows and risks associated with the insurance component, and the Group provides a significant level of service by integrating the good or service with the insurance component.

The Group has assessed the contracts it has issued and no contracts were identified as containing embedded derivatives, distinct investment components or distinct goods and non-insurance services that must be separated and accounted for under other IFRS Standards.

Certain contracts have been determined to contain non-distinct investment components, rights to a refund of premiums, and other non-insurance components (i.e. amounts payable to a policyholder that are not contingent on the occurrence of an insured event) which are not required to be separated from the host insurance contract but do require specific treatment under IFRS 17. These payments are excluded from the value of insurance revenue and insurance service expenses presented in profit and loss.

Non-distinct investment components, rights to a refund of premiums, and other non-insurance components typically arise in contracts where there is some form of surrender benefit payable at any time of the policyholder's choosing. The Group has opted as an accounting policy choice to consistently define the surrender value to be net of surrender charges or penalties when determining the amounts to exclude from insurance revenue and insurance service expenses.

(iii) Level of aggregation

Insurance contracts

Insurance contracts issued are aggregated into groups for measurement purposes. Groups of insurance contracts are first determined by identifying portfolios of insurance contracts, each comprising contracts subject to similar risks and managed together.

The Group interprets that, when aggregating contracts by similar risk, all risks must be considered but 'similar risks' is not interpreted to mean 'identical risks'. The Group judges that an appropriate method is to aggregate contracts according to which of the three risk categories of protection, longevity and investment is the dominant risk which the Group is exposed to from writing the contract. These three categories have been chosen as they best represent the risks that the Group is exposed to without unnecessary granularity and subdivision.

In aggregating contracts that are managed together the Group considers the following factors:

- The existence of a common pool of assets backing the contracts;
- the approach to risk management, for example hedging strategies or the existence of reinsurance arrangements;
- for business in a with-profits fund, the approach to risk-bearing, profit-sharing and the application of discretion;
- the source of the business, e.g. UK or overseas; and
- the categorisation of contracts for the segmental reporting reported in the accounts or for internal management information.

Each portfolio is divided into a minimum of:

- a group of contracts that are onerous on initial recognition, if any;
- a group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently, if any; and
- a group of the remaining contracts in the portfolio, if any.

The Group does not currently have any groups of contracts that fall into the category that on initial recognition have no significant possibility of becoming onerous subsequently.

Each of these groups must then be further subdivided, if necessary to ensure that each group does not contain contracts that have been issued more than one year apart.

For annuities, unisex pricing may be required under gender neutral pricing regulations, and may for example result in policies sold to females being onerous and policies sold to males being non-onerous. As the other elements of the pricing basis are identical, the difference in onerousness is solely due to the legal constraint. IFRS 17 permits such contracts to be included in the same group.

Reinsurance contracts held

Reinsurance contracts held are similarly aggregated into groups for measurement purposes by first identifying portfolios. However, rather than dividing the portfolios into three groups based on profitability, the contracts are grouped according to whether or not there is net gain at initial recognition for a group, that is into a minimum of:

- a group of contracts for which there is a net gain on initial recognition, if any;
- a group of contracts for which, on initial recognition, there is no significant possibility of there being a net gain subsequently, if any; and
- a group of the remaining contracts in the portfolio, if any.

As for groups of contracts issued, no group may contain contracts that have been issued more than one year apart and so the groups must be further subdivided to meet this requirement as necessary.

The Group does not currently have any groups of contracts that fall into the category of, on initial recognition, having no significant possibility of there being a net gain subsequently.

Some reinsurance contracts provide cover for underlying contracts that are included in different groups. However, the Group concludes that the reinsurance contract's legal form of a single contract reflects the substance of the Group's contractual rights and obligations, considering that the different covers lapse together and are not sold separately. As a result, the reinsurance contract is not separated into multiple insurance components that relate to different underlying groups.

(iv) Recognition

A group of contracts issued by the Group is recognised from the earliest of:

- the beginning of the coverage period of the group (i.e. the period during which the Group provides services in respect of any premiums within the boundaries of the contracts);
- when the first payment from a policyholder in the group becomes due or, if there is no contractual due date, when it is received from a policyholder; and
- for a group of onerous contracts, when the group becomes onerous.

The Group is required to determine whether any contracts form a group of onerous contracts before the earlier of the first two dates above if facts and circumstances indicate there is such a group.

An insurance contract acquired in a transfer of contracts or a business combination is recognised on the date of acquisition.

When the contract is recognised, it is added to an existing group of contracts or, if the contract does not qualify for inclusion in an existing group, it forms a new group to which future contracts are added. Groups of contracts are established on initial recognition and their composition is not revised once all contracts have been added to the group.

The recognition date of an investment contract with DPF is the date that the entity becomes party to the contract.

A group of reinsurance contracts held is recognised from the earlier of the following:

- the beginning of the coverage period of the group of reinsurance contracts held; and
- the date the Group recognises an onerous group of underlying insurance contracts, if the Group entered into the related reinsurance contract held in the group of reinsurance contracts held at or before that date.

For groups of reinsurance contracts held that provide proportionate coverage, which for the Group consists of quota share reinsurance contracts, recognition is delayed until the date that any underlying insurance contract is initially recognised, if that date is later than the beginning of the coverage period of the group of reinsurance contracts held.

Reinsurance contracts that are acquired are recognised from the date of acquisition.

(v) Onerous groups of contracts

The Group considers the following factors to identify if a group of contracts is onerous:

- The Group's pricing frameworks;
- profit testing results; and
- calculations for individual contracts.

(vi) Contract boundary

The measurement of a group of contracts includes all of the future cash flows within the boundary of each contract in the group, determined as follows:

Insurance contracts

Cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Group can compel the policyholder to pay premiums or has a substantive obligation to provide services (including insurance coverage and any investment services).

A substantive obligation to provide services ends when:

- the Group has the practical ability to reassess the risks of the particular policyholder and can set a price or level of benefits that fully reflects those reassessed risks; or
- the Group has the practical ability to reassess the risks of the portfolio that contains the contract and can set a price or level of benefits that fully reflects the risks of that portfolio, and the pricing of the premiums up to the reassessment date does not take into account risks that relate to periods after the reassessment date.

The reassessment of risks considers only risks transferred from policyholders to the Group, which may include both insurance and financial risks, but exclude lapse and expense risks.

Investment contracts with discretionary participation features

Cash flows are within the contract boundary of an investment contract with discretionary participation features if they result from a substantive obligation of the entity to deliver cash at a present or future date. The entity has no substantive obligation to deliver cash if it has the practical ability to set a price for the promise to deliver the cash that fully reflects the amount of cash promised and related risks.

Reinsurance contracts

Cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Group is compelled to pay amounts to the reinsurer or has a substantive right to receive services from the reinsurer. A substantive right to receive services from the reinsurer ends when the reinsurer:

- has the practical ability to reassess the risks transferred to it and can set a price or level of benefits that fully reflects those reassessed risks; or
- has a substantive right to terminate the coverage.

In assessing contract boundaries the Group makes the following judgements:

Granularity of contract boundary assessment

The contract boundary is assessed at an individual contract level.

Practical ability to set a price or level of benefits that fully reflect the risks

Only policyholder risks (the insurance and financial risks that the insurance contract transfers from the policyholder to the Group) are considered when assessing the Group’s ability to set a price or level of benefits that fully reflects the risks. Individual components of a single insurance contract are assessed separately, and the full insurance contract is subject to the same single boundary which is the longest of the individual components.

The Group considers the practical ability to set a price or level of benefits that fully reflects the risks only exists where the Group is not prevented from setting the same price it would for a new contract with the same characteristics. In addition to the constraints that apply in relation to new business, constraints on the Group’s ability to set a price or level of benefits that fully reflects the risks also include wider market competitiveness and commercial considerations and contractual, legal or regulatory restrictions.

The constraints must have commercial substance to bind the Group, where commercial substance is defined as having a ‘discernible effect on the economics of the transaction’.

Right to terminate the contract

Policyholder behaviour is not relevant in assessing whether a contract binds the Group. The Group includes, within the fulfilment cash flows, the probability-weighted expectation of such events.

Adding insurance coverage

Where there is an option to add insurance coverage to the same contract at a future date, then the cashflows arising from the option will only fall outside the contract boundary if the Group has the practical ability to fully reassess the risks for the entire contract (including the option) at the point the option is exercised.

Frequency of assessment

The assessment of the contract boundary is performed and reassessed to include the effect of changes in circumstances on the entity's substantive rights and obligations.

Treatment of non-contractual premium top-ups for accumulating with-profits and PruFund

The Group judges that, on initial recognition of an accumulating with-profits or PruFund contract, it has no substantive right to any profits associated with future non-contractual premiums and no substantive obligations. Therefore future non-contractual premiums are considered to be outside the contract boundary of the original contract. Non-contractual top-up premiums for these contracts are recognised from the date of payment and are reported as new business in the year of payment.

(vii) Measurement

Insurance contracts – initial measurement

On initial recognition, the Group measures a group of insurance contracts as the total of a the fulfilment cash flows, which comprise estimates of future cash flows, adjusted to reflect the time value of money and the associated financial risks, and a risk adjustment for non-financial risk; and

b the CSM.

Estimates of future cash flows

The estimated future cash flows are an explicit, unbiased and probability-weighted estimate (i.e. expected value) of the present value of the future cash outflows minus the present value of the future cash inflows that will arise as the entity fulfils insurance contracts. For most contracts the cash inflows and outflows primarily consist of premiums, claims and costs relating to the fulfilment of the contracts.

The With-Profits Fund contains surplus assets that have accumulated from a number of sources over a long period. Surpluses may continue to arise, for example if the amounts charged to policies exceed the costs they are intended to cover. These surpluses accrue to the With-Profits Fund and may be utilised to meet deficits arising on other with-profits contracts or to enhance the benefits payable to current or future policyholders. The expression "mutualisation" is used to refer to the feature whereby the cash flows of some contracts may affect or be affected by the cash flows of other contracts.

This feature of the With-Profits Fund is recognised under IFRS 17 through:

Adjustments to the estimated future cash flows of each with-profits group of insurance contracts to reflect the policyholders' share of the future surpluses/deficits that are expected to emerge from that group of insurance contracts.

A liability that is separate to the liabilities for the groups of insurance contracts that reflects the additional amounts expected to be paid to current or future policyholders (in accordance with paragraph B71 of IFRS 17).

Estimating the policyholders' share of the surplus assets is an area requiring significant judgement.

IFRS 17 requires that only costs that are directly attributable to fulfilling the insurance contracts are included in the cash flows. Management considers that the majority of the expenses incurred in relation to contracts within the scope of IFRS 17 meet this requirement. Examples of costs that would typically be excluded are those relating to corporate restructuring, brand marketing, and regulatory failings.

IFRS 17 requires that cash flows within the contract boundary include costs that the entity will incur in providing an investment activity to enhance benefits for the policyholder. The Group's interpretation is that the Investment Management Expenses (IMEs) incurred on assets backing the fulfilment cash flows should be included in the fulfilment cash flows for the majority of business, with the exception of non-profit protection contracts. This is on the basis of the effect of the Group's investment activities and expected investment returns on the benefits payable, even if the benefits are contractually fixed at inception (as for annuity contracts). If the Group were to invest the premiums received for annuity contracts in less risky asset classes, a lower level of benefits would then be offered for the same premiums. Therefore, the benefits to the policyholder if an insured event occurs are enhanced by the investment activities performed, and so the associated expenses are included within the fulfilment cash flows.

Where there are cash flows between different components of the reporting entity (such as policyholder funds and shareholder funds) IFRS 17 requires that these are not included when estimating the cash flows that will arise as the entity fulfils an existing insurance contract, provided these cash flows do not change the amount that will be paid to the policyholders.

The Group's interpretation is that expenses should reflect the costs incurred by the Group, which may differ from the internal charges to companies within the Group.

The cash flows of a group of insurance contracts do not reflect the Group's non-performance risk.

Discount rates

Cash flows are discounted using risk-free yield curves adjusted to reflect the liquidity characteristics of the contracts.

The Group determines the adjustment for illiquidity using either a top-down or a bottom-up approach.

Under the top-down approach a yield curve that reflects the current market rates of return implicit in a fair value measurement of a reference portfolio of assets is adjusted to eliminate any factors that are not relevant to the insurance contracts, such as cash flow mismatching and credit risk. There is no requirement to adjust the yield curve for differences in the liquidity characteristics of the insurance contracts and the reference portfolio. Judgement is required to choose an appropriate reference portfolio and to determine the element of the yield on the portfolio that is attributable to factors not relevant to the insurance contracts.

Under the bottom-up approach a liquid risk-free yield curve is increased to reflect the differences between the liquidity characteristics of the financial instruments that underlie the risk-free rates observed in the market and the liquidity characteristics of the insurance contracts. Judgement is required to determine the illiquidity premium.

The Group applies the top-down approach for non-profit annuity contracts and the bottom-up approach for all other contracts, including with-profits.

The reference portfolios chosen for non-profit annuities are the Assigned Portfolios used for the Solvency II Matching Adjustment. These are considered to be suitable as reference portfolios for IFRS 17 reporting because their objective is to closely match the liability cash flows and there is strong governance around their management.

The largest adjustment made to reference portfolio yield is in relation to credit risk. IFRS 17 is not prescriptive as to how the adjustment for credit risk should be determined other than that it should reflect market risk premiums for credit risk. The Group continues to calculate the credit risk adjustment using the same approach previously used for IFRS 4 reporting. This methodology is considered appropriate for IFRS 17 reporting as it incorporates allowances for expected and unexpected credit events, including internal and external views on the outlook for credit risk, and considers the relationship between credit risk and yield spreads.

For with-profits contracts the illiquidity premium is derived from a portfolio of fixed interest assets, comprising highly liquid government bonds and less liquid corporate bonds, that have similar characteristics and duration to the liabilities. The illiquidity premium for this portfolio is determined as the spread over risk-free rates less an allowance for credit risk. A weighting is then applied to this premium to reflect the relative liquidity characteristics of the with-profits contracts.

Risk adjustment for non-financial risk

The risk adjustment for non-financial risk for a group of insurance contracts, determined separately from the other estimates, is the compensation that the Group requires for bearing uncertainty about the amount and timing of the cash flows that arises from non-financial risk, such as insurance risk, expense risk and lapse risk.

For all lines of business, the Group uses a confidence level technique under which the target confidence level is determined by consideration of the Group's pricing framework for insurance contracts issued and the prices at which the Group has previously transacted reinsurance contracts held. The target confidence level is translated into specific non-financial assumptions by reference to the Group's view of the likely risk distributions of non-financial risk events, which have a time horizon of one year. The risk adjustment for non-financial risk is determined as the increase in the discounted value of the future cash flows from using these assumptions instead of unbiased non-financial assumptions.

The risk adjustment reflects the impact of diversification of non-financial risks within each entity in the Group but not diversification of risks between entities.

The risk adjustment is calculated separately gross of reinsurance and for reinsurance contracts held.

For reinsurance contracts held, the risk adjustment represents the amount of risk being transferred by the Group to the reinsurer. The same approach is used to determine the risk adjustment, i.e. as the difference in the discounted value of future cash flows between using best estimate assumptions and assumptions calibrated to the required confidence level.

CSM

The CSM of a group of insurance contracts represents the unearned profit that the Group will recognise as it provides services under those contracts. On initial recognition of a group of insurance contracts, if the total of (a) the fulfilment cash flows, (b) any cash flows arising at that date and (c) any amount arising from the derecognition of any assets or liabilities previously recognised for cash flows related to the group is a net inflow, then the group is not onerous. In this case, the CSM is measured as the value of the net inflow, which results in no income or expenses arising on initial recognition.

For groups of contracts acquired in a transfer of contracts or a business combination, the consideration received for the contracts is included in the fulfilment cash flows as a proxy for the premiums received at the date of acquisition. In a business combination, the consideration received is the fair value of the contracts at that date.

If the total is a net outflow, then the group is onerous. In this case, the net outflow is recognised as a loss in profit or loss, or as an adjustment to goodwill or a gain on a bargain purchase if the contracts are acquired in a business combination. A loss component is created to depict the amount of the net outflow, which determines the amounts that are subsequently presented in profit or loss as reversals of losses on onerous contracts and are excluded from insurance revenue.

Insurance contracts – subsequent measurement

The carrying amount of a group of insurance contracts at each reporting date is the sum of the liability for remaining coverage and the liability for incurred claims. The liability for remaining coverage comprises (a) the fulfilment cash flows that relate to services that will be provided under the contracts in future periods and (b) any remaining CSM at that date. The liability for incurred claims includes the fulfilment cash flows for incurred claims and expenses that have not yet been paid, including claims that have been incurred but not yet reported.

The fulfilment cash flows of groups of insurance contracts are measured at the reporting date using current estimates of future cash flows, current discount rates and current estimates of the risk adjustment for non-financial risk.

The method for calculating the CSM for a group of contracts subsequent to initial recognition of the group depends on whether the group consists of contracts that are with or without direct participation features.

A contract within the scope of IFRS 17 is considered to have direct participation features (i.e. required to be measured applying the variable fee approach) if at inception:

a. the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;
b. the entity expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items; and
c. the entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items.

Conversely all contracts that do not meet the definition of being with direct participation features at inception are contracts without direct participation features.

Contracts must be individually assessed to determine whether they are with direct participation features and once classified they are not reassessed unless the contract is modified.

Where contracts are subject to mutualisation, criteria (b) and (c) are assessed allowing for the impact of mutualisation.

The Group's contracts with direct participation features comprise all of the with-profits business and unit-linked contracts accounted for under IFRS 17.

All of the Group's other business that is within the scope of IFRS 17 are contracts without direct participation features. In particular IFRS 17 prescribes that reinsurance contracts, held or issued, can only be contracts without direct participation features.

Underlying items

The underlying items are items that determine some of the amounts payable to a policyholder. Underlying items can comprise any items, for example, a reference portfolio of assets, the net assets of the entity, or a specified subset of the net assets of the entity.

For in-force with-profits contracts the Group defines the underlying items to be the assets backing asset shares (which are the accumulated value of all items of income and outgo) and, where applicable, the assets backing the amounts expected to be added to asset shares in the future, for example to reflect miscellaneous surplus that has arisen (such as from some non-profit business written in the With-Profits Fund).

A liability, that is separate to the liabilities for the in-force with-profits contracts (in accordance with paragraph B71 of IFRS 17), is held in the With-Profits Fund that reflects the additional amounts expected to be paid to current or future policyholders. The Group defines the underlying items for these benefits to be:

- the entirety of the assets in the With-Profits Fund;
- less: the underlying items of the in-force with-profits contracts;
- less: the assets held to meet other liabilities of the With-Profits Fund, for example for non-profit contracts.

For unit-linked contracts the Group defines the underlying items to be the assets backing the units allocated to all contracts in the unit of account (the 'unit fund'). For contracts where actuarial funding is used the underlying items are defined as the funded value of units, that is the face value of units multiplied by the actuarial funding factor.

Insurance contracts without direct participation features

For insurance contracts without direct participation features, the carrying amount of the CSM subsequent to initial recognition is calculated using the General Measurement Model (GMM). Applying GMM, the carrying amount of the CSM at each reporting date is the carrying amount at the start of the reporting period, adjusted for:

- the effect of any new contracts that are added to the group in the reporting period;
- interest accreted on the carrying amount of the CSM during the reporting period, measured at the discount rates determined on initial recognition;
- changes in fulfilment cash flows that relate to future service, except to the extent that:
  - any increases in the fulfilment cash flows exceed the carrying amount of the CSM, in which case the excess is recognised as a loss in profit or loss and creates a loss component; or
  - any decreases in the fulfilment cash flows are allocated to the loss component;
- the effect of any currency exchange differences on the CSM; and
- the amount recognised as insurance revenue because of the services provided in the reporting period.

Changes in fulfilment cash flows that relate to future service comprise:

- experience adjustments arising from premiums received in the reporting period that relate to future services and related cash flows, measured at the discount rates determined on initial recognition;
- changes in estimates of the present value of future cash flows in the liability for remaining coverage, measured at the discount rates determined on initial recognition, except for changes that arise from the effects of the time value of money, financial risk and changes therein;
- differences between (a) any investment component expected to become payable in the reporting period, determined as the payment expected at the start of the reporting period plus any insurance finance income or expenses related to that expected payment before it becomes payable; and (b) the actual amount that becomes payable in the reporting period; and
- changes in the risk adjustment for non-financial risk that relate to future services.

A key aspect of GMM is that adjustments to the CSM resulting from changes to the present value of future cash flows must be measured using the discount rate that applied at inception of the group of contracts. However, the standard does not explicitly state whether this is intended to extend to all financial assumptions. The Group's interpretation is that all financial assumptions must be set at inception but are only 'locked-in' for future years, therefore the estimates of cash flows up to the measurement date reflect the effect of actual historical financial risk experience. For example, for index-linked annuities the estimated future cash flows reflect the actual inflationary increases that have been added to benefits since inception rather than the locked-in assumed inflationary increases.

After recognising a loss on an onerous group of insurance contracts, specified fulfilment cash flows must be allocated on a systematic basis between the loss component of the liability for remaining coverage and the liability for remaining coverage excluding the loss component. For this purpose, the proportion allocated to the loss component is determined as the ratio of the amount of the loss component to the discounted value of the future cash outflows plus the risk adjustment for non-financial risk.

Insurance contracts with direct participation features

Direct participating contracts are contracts under which the Group's obligation to the policyholder is the net of:

- the obligation to pay the policyholder an amount equal to the fair value of the underlying items; and
- a variable fee in exchange for future services provided by the contracts, being the amount of the Group's share of the fair value of the underlying items less fulfilment cash flows that do not vary based on the returns on underlying items. The Group provides investment services under these contracts by promising an investment return based on underlying items, in addition to insurance coverage.

In respect of the variable fee for the Group’s in-force with-profits contracts, the Group's share of the fair value of the underlying items consists of:

- shareholder transfers, gross of tax; and
- the Group's share of the excess of charges and deductions taken from the asset share (such as annual management charges or surrender penalties) over shareholder transfers, gross of tax, and costs that vary directly with the underlying items.

The fulfilment cash flows that do not vary based on the returns of the underlying items are:

- the Group's share of amounts that are expressed as a monetary amount, such as administration expenses, policy fees and the risk adjustment for non-financial risk. For certain types of cost, such as investment management expenses and additional death benefits in excess of the asset share, some costs vary directly with the underlying items and others do not. The whole amount of these types of cost is included in the fulfilment cash flows that do not vary based on the returns of the underlying items.
- less the fee margin charged by the Group’s asset managers for managing the investments backing the with-profits contracts.

There is no variable fee or CSM in relation to the additional amounts expected to be paid to current or future policyholders (that are recognised in accordance with paragraph B71 of IFRS 17).

In respect of the variable fee for the Group’s unit-linked contracts, the Group’s share of the fair value of the underlying items consists of charges and deductions taken from the unit fund (such as annual management charges or surrender penalties), less costs that vary directly with the underlying items. The fulfilment cash flows that do not vary based on the returns of the underlying items are amounts that are expressed as a monetary amount, such as administration expenses, policy fees and the risk adjustment for non-financial risk. For certain types of cost, such as investment management expenses and additional death benefits in excess of the unit fund, some costs vary directly with the underlying items and others do not. The whole amount of these types of cost is included in the fulfilment cash flows that do not vary based on the returns of the underlying items.

For insurance contracts with direct participation features, the carrying amount of the CSM subsequent to initial recognition is calculated using the Variable Fee Approach (VFA). When measuring a group of direct participating contracts, the Group adjusts the fulfilment cash flows by the whole of the change in the obligation to pay policyholders an amount equal to the fair value of the underlying items. These changes do not relate to future services and are recognised in profit or loss. The Group then adjusts any CSM for changes in the amount of the Group’s share of the fair value of the underlying items, which relate to future services, as explained below.

The carrying amount of the CSM at each reporting date is the carrying amount at the start of the reporting period, adjusted for:

- the CSM of any new contracts that are added to the group in the reporting period;
- the change in the amount of the Group’s share of the fair value of the underlying items and changes in fulfilment cash flows that relate to future services, except to the extent that:
  - a decrease in the amount of the Group's share of the fair value of the underlying items, or an increase in the fulfilment cash flows that relate to future services, exceeds the carrying amount of the CSM, giving rise to a loss in profit or loss (included in insurance service expenses) and creating a loss component; or
  - an increase in the amount of the Group's share of the fair value of the underlying items, or a decrease in the fulfilment cash flows that relate to future services, is allocated to the loss component;
- the effect of any currency exchange differences on the CSM; and
- the amount recognised as insurance revenue because of the services provided in the reporting period.

Changes in fulfilment cash flows that relate to future services include the changes relating to future services specified above for contracts without direct participation features (measured at current discount rates) and changes in the effect of the time value of money and financial risks that do not arise from underlying items e.g. the effect of financial guarantees.

In determining the change in CSM attributable to the effect of the time value of money and financial risk on the Group’s share of the fair value of the underlying items and the fulfilment cash flows, the Group has chosen not to use the risk mitigation option whereby the changes would be adjusted to reflect the use of derivatives, non-derivative financial instruments or reinsurance contracts held to mitigate the effect of financial risk.

After recognising a loss on an onerous group of insurance contracts, specified fulfilment cash flows must be allocated on a systematic basis between the loss component of the liability for remaining coverage and the liability for remaining coverage excluding the loss component. For this purpose, the proportion allocated to the loss component is determined as the ratio of the amount of the loss component to the discounted value of the future cash outflows plus the risk adjustment for non-financial risk.

Reinsurance contracts

To measure a group of reinsurance contracts, the Group applies the same accounting policies as are applied to insurance contracts without direct participation features, with the following modifications.

The carrying amount of a group of reinsurance contracts at each reporting date is the sum of the asset or liability for remaining coverage and the asset or liability for incurred claims. The asset or liability for remaining coverage comprises (a) the fulfilment cash flows that relate to services that will be received under the contracts in future periods and (b) any remaining CSM at that date.

The Group measures the estimates of the present value of future cash flows using assumptions that are consistent with those used to measure the estimates of the present value of future cash flows for the underlying insurance contracts. The present value of the future cash flows for reinsurance contracts held is also adjusted for any risk of non-performance by the reinsurer. The effect of the non-performance risk of the reinsurer is assessed at each reporting date and the effect of changes in the non-performance risk is recognised in profit or loss.

The risk adjustment for non-financial risk is the amount of risk being transferred by the Group to the reinsurer.

On initial recognition, the CSM of a group of reinsurance contracts represents a net cost or net gain on purchasing reinsurance. It is measured as the amount of the total of (a) the fulfilment cash flows, (b) any amount arising from the derecognition of any assets or liabilities previously recognised for cash flows related to the group, (c) any cash flows arising at that date and (d) any income recognised in profit or loss because of onerous underlying contracts recognised at that date.

However, if any net cost on purchasing reinsurance coverage relates to insured events that occurred before the purchase of the reinsurance, then the Group recognises the cost immediately in profit or loss as an expense.

The carrying amount of the CSM at each reporting date is the carrying amount at the start of the reporting period, adjusted for:

- the effect of any new contracts that are added to the group in the reporting period;
- interest accreted on the carrying amount of the CSM during the reporting period, measured at the discount rates determined on initial recognition;
- income recognised in profit or loss in the reporting period on initial recognition of an onerous group of underlying contracts;
- reversals of a loss-recovery component to the extent that they are not changes in the fulfilment cash flows of the group of reinsurance contracts;
- changes in fulfilment cash flows that relate to future services, measured at the discount rates determined on initial recognition, unless they result from changes in fulfilment cash flows allocated to a group of underlying contracts that do not adjust the CSM for the group of underlying insurance contracts;
- the effect of any currency exchange differences on the CSM; and
- the amount recognised in profit or loss because of the services received in the reporting period.

Reinsurance of onerous underlying insurance contracts

The Group adjusts the CSM of the group to which a reinsurance contract belongs and as a result recognises income when it recognises a loss on initial recognition of an onerous group of underlying contracts, if the reinsurance contract is entered into before or at the same time as the onerous underlying contracts are recognised. The adjustment to the CSM is determined by multiplying:

- the amount of the loss that relates to the underlying contracts; and
- the percentage of claims on the underlying contracts that the Group expects to recover from the reinsurance contracts.

For reinsurance contracts acquired in a transfer of contracts or a business combination covering onerous underlying contracts, the adjustment to the CSM is determined by multiplying:

- the amount of the loss component that relates to the underlying contracts at the date of acquisition; and
- the percentage of claims on the underlying contracts that the Group expects at the date of acquisition to recover from the reinsurance contracts.

For reinsurance contracts acquired in a business combination, the adjustment to the CSM reduces goodwill or increases a gain on a bargain purchase.

If the reinsurance contract covers only some of the insurance contracts included in an onerous group of contracts, then the Group determines the portion of losses recognised on the onerous group of contracts that relates to underlying contracts covered by the reinsurance contract.

A loss-recovery component is created or adjusted for the group of reinsurance contracts to depict the adjustment to the CSM, which determines the amounts that are subsequently presented in profit or loss as reversals of recoveries of losses from the reinsurance contracts and are excluded from the allocation of reinsurance premiums paid.

(viii) Derecognition and contract modification

The Group derecognises a contract when it is extinguished – i.e. when the specified obligations in the contract expire or are discharged or cancelled.

The Group also derecognises a contract if its terms are modified in a way that would have significantly changed the accounting for the contract had the new terms always existed, in which case a new contract based on the modified terms is recognised. If a contract modification does not result in derecognition, then the Group treats the changes in cash flows caused by the modification as changes in estimates of fulfilment cash flows.

On derecognition of a contract from within a group of contracts:

- the fulfilment cash flows allocated to the group are adjusted to eliminate those that relate to the rights and obligations derecognised;
- the CSM of the group is adjusted for the change in the fulfilment cash flows, except where such changes are allocated to a loss component; and

the number of coverage units for the expected remaining services is adjusted to reflect the coverage units derecognised from the group (see 'Release of the CSM' below).

If a contract is derecognised because it is transferred to a third party, then the CSM is also adjusted for the premium charged by the third party, unless the group is onerous.

If a contract is derecognised because its terms are modified, then the CSM is also adjusted for the premium that would have been charged had the Group entered into a contract with the new contract's terms at the date of modification, less any additional premium charged for the modification. The new contract recognised is measured assuming that, at the date of modification, the Group received the premium that it would have charged less any additional premium charged for the modification.

The Group has applied judgement in determining the appropriate treatment for the modification to the Rothesay reinsurance treaty which occurred when the majority of the underlying contracts that were reinsured by the treaty were transferred to Rothesay via a Part VII transfer on 15 December 2021. The Group judges that the amendment to the treaty to facilitate the continued long-term reinsurance of contracts that were originally intended to be transferred but were removed from the scope of the Part VII, resulted in a significant change to the contract boundary of the treaty. Therefore the appropriate treatment is to derecognise the original treaty and recognise the amended treaty as a new contract. As the amendment occurred shortly before the IFRS 17 transition date, the Group concludes that it is sufficient to determine the premium for the amended treaty as the fair value of the reinsured benefits as at the date of transition.

(ix) Presentation

Portfolios of insurance contracts that are assets and those that are liabilities, and portfolios of reinsurance contracts that are assets and those that are liabilities, are presented separately in the statement of financial position. Any assets or liabilities recognised for cash flows arising before the recognition of the related group of contracts are included in the carrying amount of the related portfolios of contracts.

The Group disaggregates amounts recognised in the statement of profit or loss into (a) an insurance service result, comprising insurance revenue and insurance service expenses; and (b) insurance finance income or expenses. The Group has elected to disaggregate the change in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses.

Income and expenses from reinsurance contracts are presented separately from income and expenses from insurance contracts. Income and expenses from reinsurance contracts, other than insurance finance income or expenses, are presented on a net basis as 'net expenses from reinsurance contracts' in the insurance service result.

The Group excludes from both insurance revenue and insurance service expenses any non-distinct investment components, refunds of premiums and other non-insurance components.

The Group has made the accounting policy choice that accounting estimates made in previous interim financial statements may be changed when applying IFRS 17 in subsequent interim financial statements and in the annual reporting period.

Insurance revenue

The Group recognises insurance revenue as it satisfies its performance obligations i.e. as it provides services to groups of insurance contracts. The insurance revenue relating to the services provided for each reporting period represents the total of the changes in the liability for remaining coverage that relate to services for which the Group expects to receive consideration, and comprises the following items.

A release of the CSM, measured based on coverage units provided (see 'Release of the CSM' below).

Changes in the risk adjustment for non-financial risk relating to current services.

Claims and other insurance service expenses incurred in the reporting period, measured as the amounts expected at the beginning of the reporting period.

In addition, the Group allocates a portion of premiums that relate to recovering any insurance acquisition cash flows to each period in a systematic way based on the passage of time. The Group recognises the allocated amount, adjusted for interest accretion at the discount rates determined on initial recognition of the related group of contracts, as insurance revenue and an equal amount as insurance service expenses.

Release of the CSM

The amount of the CSM of a group of insurance contracts that is recognised as insurance revenue in the reporting period is determined by identifying the coverage units in the group, allocating the CSM remaining at the end of the reporting period (before any allocation) equally to each coverage unit provided in the current reporting period and expected to be provided in future reporting periods, and recognising in profit or loss the amount of the CSM allocated to coverage units provided in the current reporting period. The number of coverage units is the quantity of services provided by the contracts in the group, determined by considering for each contract the quantity of benefits provided and its expected coverage period. The coverage units are reviewed and updated at each reporting date.

Services provided to insurance contracts include insurance coverage and, for all direct participating contracts, investment services for managing underlying items on behalf of policyholders (investment-related services). In addition, insurance contracts without direct participation features may also provide investment services for generating an investment return for the policyholder (investment-return service), but only if:

an investment component exists or the policyholder has a right to withdraw an amount (e.g. the policyholder's right to receive a surrender value on cancellation of a contract);

the investment component or withdrawal amount is expected to include an investment return; and

the Group expects to perform investment activities to generate that investment return.

The Group defines the coverage units for its contracts as follows:

- Insurance coverage (where the benefit is a single lump sum payment, e.g. term assurances): the sum assured.
- Insurance coverage (where the benefit is a regular income, e.g. annuities and income protection): the annualised amount of income, as confirmed by the IFRS Interpretation Committee ("IFRIC") in 2022.
- Investment-related service (with-profits and unit-linked): the asset share or unit fund value.
- Investment-return service (e.g. annuities): the transfer amount (for deferred annuities in the accumulation phase) or the payment of annuity benefits within a guaranteed payment period.

The expected coverage period reflects expectations of lapses and cancellations of contracts, as well as the likelihood of insured events occurring to the extent that they would affect the expected coverage period. The period of investment services ends no later than the date on which all amounts due to current policyholders relating to those services have been paid.

Where a contract provides both insurance coverage and investment services the Group must apply judgement to determine appropriate weightings to assign to the two types of service in order to calculate the coverage units for each reporting period. The weights are not locked-in at inception of the group and instead are reviewed and updated at each reporting date, consistent with the treatment of the coverage units.

With-profits and unit-linked contracts are predominantly investment contracts but may additionally provide insurance coverage if the contract provides a death benefit in excess of the underlying items. For these contracts weighted coverage units are determined as the maximum of the asset share or unit fund and the amount payable on death.

IFRS 17 does not provide explicit guidance as to whether the assumptions used to project the expected coverage units for future reporting periods should be current or locked-in (i.e. those that applied at inception of the group of contracts). In addition, the standard does not provide guidance as to whether the future coverage units should be discounted when determining the amount of CSM to be released in the current reporting period.

The Group judges that in regards to the assumptions used for both GMM and VFA CSM it is appropriate to use current assumptions to calculate the coverage units expected to be provided in the future. This is on the basis that it results in the most accurate estimate of the service that will be provided in future.

In respect of discounting, the Group judges that it is appropriate to discount the future coverage units as that is consistent with the CSM calculation allowing for the time value of money. The discounting approach follows the method applied in the CSM calculation, namely coverage units for GMM CSM are discounted using the rates that applied at inception and coverage units for VFA CSM are discounted using current rates.

Insurance service expenses

Insurance service expenses arising from insurance contracts are recognised in profit or loss as they are incurred. They exclude repayments of investment components and comprise the following items:

- Incurred claims and other insurance service expenses.
- Amortisation of insurance acquisition cash flows: This is equal to the amount of insurance revenue recognised in the reporting period that relates to recovering insurance acquisition cash flows.
- Losses on onerous contracts and reversals of such losses.
- Adjustments to the liabilities for incurred claims that do not arise from the effects of the time value of money, financial risk and changes therein.
- Impairment losses on assets for insurance acquisition cash flows and reversals of such impairment losses.

Net expenses from reinsurance contracts

Net expenses from reinsurance contracts comprise an allocation of reinsurance premiums paid less amounts recovered from reinsurers.

The Group recognises an allocation of reinsurance premiums paid in profit or loss as it receives services under groups of reinsurance contracts. The allocation of reinsurance premiums paid relating to services received for each period represents the total of the changes in the asset for remaining coverage.

Coverage units for reinsurance contracts held are typically consistent with the underlying insurance contracts, adjusted for differences in the services received from the reinsurer. For reinsurance contracts held that provide reinsurance of mortality or morbidity risk, the coverage units are typically defined as the sum at risk reinsured. For longevity swap reinsurance arrangements in relation to non-profit annuity business, the coverage units are based on the proportion of the actual annuity payments made on the underlying contracts that the Group recovers from the reinsurer.

For a group of reinsurance contracts covering onerous underlying contracts, the Group establishes a loss-recovery component of the asset for remaining coverage to depict the recovery of losses recognised:

- on recognition of onerous underlying contracts, if the reinsurance contract covering those contracts is entered into before or at the same time as those contracts are recognised; and
- for changes in fulfilment cash flows of the group of reinsurance contracts relating to future services that result from changes in fulfilment cash flows of the onerous underlying contracts.

The loss-recovery component determines the amounts that are subsequently presented in profit or loss as reversals of recoveries of losses from the reinsurance contracts and are excluded from the allocation of reinsurance premiums paid. It is adjusted to reflect changes in the loss component of the onerous group of underlying contracts, but it cannot exceed the portion of the loss component of the onerous group of underlying contracts that the Group expects to recover from the reinsurance contracts.

Insurance finance income and expenses

Insurance finance income and expenses comprise changes in the carrying amounts of groups of insurance and reinsurance contracts arising from the effects of the time value of money, financial risk and changes therein, unless any such changes for groups of direct participating contracts are allocated to a loss component and included in insurance service expenses. They include changes in the measurement of groups of contracts caused by changes in the value of underlying items (excluding additions and withdrawals).

The Group has opted as an accounting policy choice to recognise all insurance finance income or expenses for the reporting period in profit or loss and to not recognise any part of that income or expenses in other comprehensive income (OCI).

1.4.2 Financial Instruments

(i) Initial recognition

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially recognised on the trade date measured at their fair value.

(ii) Measurement categories

The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms. The categories include the following:

- Amortised cost
- Fair Value Through Profit or Loss (FVTPL)

(iii) Financial instruments measured at amortised cost

Financial instruments are held at amortised cost if both of the following conditions are met:

- The instruments are held within a business model with the objective of holding the instrument to collect the contractual cash flows.
- The contractual terms of the debt instrument give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

(iv) Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group holds financial assets to generate returns and provide a capital base to provide for settlement of claims as they arise. The Group considers the timing, amount and volatility of cash flow requirements to support insurance liability portfolios in determining the business model for the assets as well as the potential to maximise return for shareholders and future business development.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios that is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel.
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

The expected frequency, value and timing of asset sales are also important aspects of the Group's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business.

(v) The SPPI test

As a second step of its classification process the Group assesses the contractual terms to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a debt arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

(vi) Financial assets measured at fair value through profit or loss (FVTPL)

Financial assets in this category are those that are managed in a fair value business model, or that have been designated by management upon initial recognition, or are mandatorily required to be measured at fair value under IFRS 9. This category includes debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is to collect contractual cash flows.

(vii) Subsequent measurement

After initial measurement, deposits; cash and accrued investment income and other debtors are measured at amortised cost, using the Effective Interest Rate (EIR) method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. Expected Credit Losses (ECLs) are recognised in investment return in the condensed consolidated income statement when the investments are impaired.

Financial assets at FVTPL are recorded in the condensed consolidated statement of financial position at fair value. Changes in fair value are recorded in investment return in the condensed consolidated income statement. Interest earned on assets mandatorily required to be measured at FVTPL is recorded using contractual interest rate. Dividend income from equity instruments measured at FVTPL is recorded in investment return in the condensed consolidated income statement when the right to the payment has been established.

(viii) Reclassification of financial assets and liabilities

The Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which there has been a change in business model.

(ix) Derecognition other than for substantial modification

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

The rights to receive cash flows from the asset have expired; or

The Group has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either: (a) the Group has transferred substantially all the risks and rewards of the asset; or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Group considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

(ix) Derecognition other than for substantial modification (continued)

When the Group has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Group's continuing involvement, in which case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Group could be required to pay.

(x) Derecognition due to substantial modification of terms and conditions

The Group derecognises a financial asset when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new instrument, with the difference recognised as a derecognition gain or loss. In the case of debt instruments at amortised cost, the newly recognised loans are classified as Stage 1 for ECL measurement purposes.

When assessing whether or not to derecognise an instrument, amongst others, the Group considers the following factors:

Change in currency of the debt instrument.

Introduction of an equity feature.

Change in counterparty.

If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss.

(xi) Impairment of financial assets

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the appropriate effective interest rate.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For certain instruments with investment grade rating, the Group uses the low credit simplification and consequently, a determination of significant increase in credit risk will not be required and the impairment loss would always be calculated based on a 12-month ECL.

The Group also makes use of a simplified impairment approach for trade receivables and contract assets as allowed under IFRS 9. Under this approach, impairment is calculated using a provisioning matrix that is based on days past due.

(xii) Write-offs

Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

(xiii) Recognition of interest income

Under IFRS 9, interest income is recorded using the effective interest rate (EIR) method for all financial assets measured at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on acquisition of the financial asset as well as fees and costs that are an integral part of the EIR. The Group recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the debt instrument.

If expectations of fixed rate financial assets cash flows are revised for reasons other than credit risk, the changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference to the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset in the balance sheet with a corresponding increase or decrease in interest income.

(xiv) Interest and similar income

Interest income comprises amounts calculated using the effective interest method for assets measured at amortised cost. These are disclosed separately on the face of the income statement.

Other interest income includes interest on all financial assets measured at FVTPL, using the contractual interest rate.

The Group calculates interest income on financial assets, other than those considered credit-impaired, by applying the EIR to the gross carrying amount of the financial asset.

1.5 Significant judgements and estimates

In preparing these condensed consolidated financial statements, management has made judgements and estimates that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The accounting policies adopted by the Group have not changed materially from those applied in the Group's Annual Report and Accounts for the year ended 31 December 2022, the exceptions being those arising from the application of IFRS 17 and IFRS 9. A full list of the Group's material accounting policies in respect of IFRS 17 and IFRS 9 are provided in Note 1.4.1. In applying these accounting policies, the Group has made a number of significant judgements, apart from those relating to estimates, which have a significant effect on the amounts recognised in the condensed consolidated financial statements.

The following table sets out the basis of these judgements, and references the associated accounting policy. Further detail on specific application can be found in Note 1.4.1.

Financial statement Area	Key judgement	Accounting policy	Note
Classification of insurance and investment contracts	IFRS 17 requires that contracts that transfer significant insurance risk are accounted for as insurance contracts. Judgement is required to determine whether contracts written by the Group transfer significant insurance risk, unless a specific scope exception applies (e.g. equity release mortgages). Judgement is also required in the case of certain investment contracts which provide an additional benefit in addition to guaranteed benefits to determine whether they meet the	1.4.1(i)	11.1
Contractual Service Margin measurement model	IFRS 17 requires an assessment of whether contracts meet the conditions for having direct participation features and when this is the case such contracts must use the Variable Fee Approach to measure the CSM. For with-profit and unit linked contracts, judgement is required to assess whether the Group expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items; and whether the entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items. The assessment is carried out at the contract level and judgement is also applied to determine the extent to which mutualisation between	1.4.1(vii)	11.1
Underlying items	Underlying items are items that determine some of the amounts payable to a policyholder as part of their with-profit or unit linked contract and therefore are a component of the insurance contract or investment contracts with DPF liabilities. Judgement is required to define underlying items for with-profits contracts that reflect the mutualisation between contracts and how to split underlying items between current and future	1.4.1(vii)	11.1

Division of the surpluses relating to the With-Profits Fund	Judgement is required to determine which surplus should be divided between current and future with-profits policyholders as well as with the Group and which surplus is attributable solely to the Group. Judgement is also required to assess whether the current amount of surplus attributed to with-profits policyholders should be determined retrospectively (i.e. the accumulated value of the historical surplus attributed to with-profits policyholders) or prospectively (i.e. the discounted	1.4.1(vii)	11.1
Provision of insurance contract services	The amount of CSM recognised in profit or loss in each reporting period is determined by reference to coverage units, which represent the insurance contract services provided in that period. Judgement is required to define the services provided, and the relative weighting if these include both insurance and investment services.	1.4.1(ix)	11.1

The following table sets out the basis of the judgements made specifically for the measurement of the condensed consolidated statement of financial position at the IFRS 17 transition date of 1 January 2022. Further detail on specific application can be found in Note 1.3.1.

Financial statement area	Key judgement
Method of transition approach	Judgement was required to assess for which contracts it would be impracticable to apply the Fully Retrospective Approach (FRA).

Sources of estimation uncertainty

The preparation of these condensed consolidated financial statements requires the Group to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. These estimates and assumptions have not changed materially from those applied for the year end 2022 financial statements, except for the measurement of insurance contracts on the application of IFRS 17.

The following table sets out the assumptions and estimates which have a significant risk of resulting in a material adjustment to the carrying value of the insurance contract liabilities within the next financial year. Details of the nature of the estimate are provided in the related accounting policy and details of the assumptions applied at the statement of financial position date are provided in the related note.

Financial statement asset or liability	Key estimate and assumptions	Accounting policy	Note
Insurance contract liabilities - Future cash flows	When measuring the insurance contract liabilities, a number of assumptions are applied to estimate future amounts due to the policyholder. The areas where the assumptions could have a material impact are: – for with-profits contracts, the assumed future investment returns on the backing assets, the assumptions used in determining the allowance for persistency and maintenance expenses, the policyholders' share of historic and future surpluses, and the illiquidity premium in setting the discount rate; and – for annuity contracts, the assumed rates of policyholder mortality, maintenance expenses, and the selection of the reference portfolio and allowance for credit risk in	1.4.1(vii)	11.1
Insurance contract liabilities - Risk adjustment for non-financial risk	When measuring the insurance contract liabilities, a risk adjustment is included. The assessment of the risk adjustment requires assumptions about the compensation that the Group requires for bearing uncertainty about the amount and timing of the cash flows that arises from non-financial risk, the most significant of which is the assumed rates of the policyholder mortality for	1.4.1(vii)	11.1

The following table sets out the significant assumptions and estimates made specifically for the measurement of the condensed consolidated statement of financial position at the IFRS 17 transition date of 1 January 2022. Further detail on the specific application can be found in Note 1.3.1.

Financial statement asset or liability	Key estimate and assumptions
Insurance contract liabilities - Estimation of fair value	When determining fair values, a number of assumptions are applied to estimate a market participant's view of the best estimate of the liability and the compensation required for taking on the obligation. The areas where the assumptions could have a material impact are: – the target capital and cost of capital rate; – for with-profits contracts, the assumed future investment returns on the backing assets, the assumptions used in determining the allowance for persistency and maintenance expenses, the level of compensation required to reflect the risk in relation to future shareholder transfers, and the discount rates used; and

2 Group structure and products

2.1 Group composition

The Group structure is available in the full PDF version of this interim report via the following link https://global.mandg.com/investors/results-reports-and-presentations.

2.2 Corporate transactions

My Continuum Financial Limited acquisition

On 8 March 2023, M&G Wealth Advice Limited (MGWAL), a wholly owned subsidiary of the Group, acquired a 49.9% holding in My Continuum Financial Limited (MCFL) Limited, the holding company of Continuum (Financial Services) LLP (CFSL) and My Continuum Wealth (MCW), for a purchase consideration of £22m, including an adjustment for capital, with a view to acquiring the remaining stake in two future tranches, in March 2024 and March 2025.

Continuum is now part of M&G Wealth within our Retail and Savings segment and brings to M&G a fast-growing in-house discretionary Model Portfolio Service as its central investment offering allowing M&G to further grow and build our advisory capability across the UK, and to provide a wider range of investment solutions to more clients. Continuum is based in Plymouth and has more than 60 self-employed advisers operating nationally.

The acquisition of the initial stake in Continuum has been treated as an investment in an associate accounted for under the equity method in the condensed consolidated statement of financial position.

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 Group’s 2022 consolidated financial statements.

3 Segmental analysis

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

3.1 Operating and reportable segments

The Group’s operating segments are:

Asset Management

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

The Asset Management segment generates revenues by charging fees which are typically based on the level of assets under management. The Asset Management segment also earns investment management revenues from the significant proportion of Retail and Savings assets it manages.

Retail and Savings

Our Retail and Savings operating segment includes M&G Wealth, our Heritage business and Other Retail and Savings business which primarily relates to our international savings business.

Wealth

M&G Wealth provides a range of retirement, savings and investment management solutions to its clients. These products are distributed to clients through the wrap platform, intermediaries and advisers, and include the Retirement Account (a combined individual pension and income drawdown product), individual pensions, ISAs, collective investments and a range of on-shore and off-shore bonds.

All of the Group's products that give access to the UK PruFund investment proposition are included in M&G Wealth. The UK PruFund investment proposition gives 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 clients but may accept further contributions from existing policyholders[i]. The annuity contracts include: level annuities, which provide a fixed annuity payment; fixed increase annuities, which incorporate a periodic automatic fixed increase in annuity payments; and inflation-linked annuities, which incorporate a periodic increase based on a defined inflation index. Some inflation-linked annuities have minimum and/or maximum increases relative to the corresponding inflation index.

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

Some of the Group's Heritage products written through conventional and accumulating with-profits contracts, in the 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 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 of the SAIF with-profits sub fund on 1 April 2021.

[i] The Group accepts new members to existing Corporate Pension schemes and writes a small number of new annuity policies with clients who have a pension issued by PAC.

Other Retail and Savings

Our savings businesses based in Ireland (Prudential International Assurance plc) and Poland are included within Other Retail and Savings. The Group's products which give access to the non-UK PruFund investment proposition are included in 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.

The Group's adjusted operating profit before tax methodology has been updated since it was disclosed in the 2022 consolidated financial statements following the adoption of IFRS 17 'Insurance Contracts'. Other changes to the methodology have also been made to exclude from adjusted operating profit the foreign exchange movements on non-GBP denominated subordinated debt and the fair value movement on strategic investments since these movements reflect short-term fluctuations in investment return. Details of the methodology are presented below:

Fee based business

For the Group's fee based business written by Asset Management and Retail and Savings segments, adjusted operating profit before tax includes fees received from clients and operating costs for the business including overheads, expenses required to meet regulatory requirements and regular business development/restructuring and other costs. Costs associated with fundamental Group-wide restructuring and transformation are not included in adjusted operating profit before tax.

Business written in the With-Profits Fund

For the Group's business written in the With-Profits Fund in the Retail and Savings segment, adjusted operating profit before tax includes the release of the risk adjustment and the expected release of the CSM for the period. The expected CSM release for the period is calculated as the CSM at the start of the period updated to reflect long-term expected investment returns multiplied by the expected amortisation factor for the period.

> The long-term expected investment returns are calculated on the assumption of real-world investment returns, which are determined by reference to the risk-free rate plus a risk premium based on the mix of assets held to back the asset shares. In the calculation of the expected CSM release for with-profits business, the long-term expected investment returns for the six months ended 30 June 2023 were 8.5% p.a. (4.8% p.a. for the six months ended 30 June 2022 and 4.8% p.a. for the year ended 31 December 2022).
>
> The expected amortisation factor for the period reflects the expected pattern of release of the CSM for the with-profits business over the life of the contracts. The expected amortisation factor used for the six months ended 30 June 2023 was 12.7% p.a. (12.3% p.a. for the six months ended 30 June 2022 and 11.9% p.a. for the year ended 31 December 2022).

Adjusted operating profit before tax for the Group's business written in the With-Profits Fund also includes the expected investment return for the shareholder's share of the IFRS value of the excess assets in the Fund. For the six months ended 30 June 2023, the return was 6.0% p.a. (2.4% p.a. for the six months ended 30 June 2022 and 2.4% p.a. for the year ended 31 December 2022).

The application of IFRS 17 to non-profit contracts in the with-profits funds results in a mismatch due to the difference between their value under the IFRS 17 General Measurement Model accounting for these contracts (primarily annuities) and how these contracts are treated in determining their fair value when assessing current and future with-profits contracts under the Variable Fee Approach (VFA). Although the impact of this mismatch balances over the life of the current and future with-profit contracts as the CSM under the VFA is set up and released, results for the period do not reflect the long-term economics of the transaction. Therefore, the impact of the mismatch has been excluded from adjusted operating profit before tax.

Shareholder annuity business

For the Group's shareholder annuity products written by the Retail and Savings segment, adjusted operating profit before tax includes the release of the CSM and the risk adjustment for the period. Adjusted operating profit before tax also includes the returns on surplus assets in excess of IFRS 17 liabilities based on long-term expected investment returns, which are determined by reference to the risk-free rate plus a risk premium based on the mix of assets. For the six months ended 30 June 2023 the long term expected investment returns for shareholder annuities were 6.6% p.a. (2.2% p.a. for the six months ended 30 June 2022 and 2.2% p.a. for the year ended 31 December 2022). The net effect of changes to the valuation rate of interest due to asset trading and portfolio rebalancing, and experience variances are also included in adjusted operating profit before tax.

Adjusted operating profit before tax for shareholder annuities excludes the impact of the mismatch resulting from the measurement of fulfilment cash flows using current interest rates and any changes to CSM being measured using locked-in rates.

Corporate Centre

For the Corporate Centre adjusted operating profit before tax is the expense incurred to run the head office and the actual investment return on treasury activities.

Key adjusting items between IFRS profit before tax and adjusted operating profit before tax

Certain adjustments that are considered to be non-recurring or strategic, or due to short-term movements not reflective of longer-term performance are made to IFRS profit or loss before tax to determine adjusted operating profit before tax. Adjustments are in respect of short-term fluctuations in investment returns, mismatches arising on the application of IFRS 17, impairment and amortisation in respect of acquired intangibles, costs associated with fundamental Group-wide restructuring and transformation, profit or loss arising on corporate transactions and, profit or loss before tax from any discontinued operations.

Short-term fluctuations

The adjustment for short-term fluctuations in investment returns represents:

- Difference between actual CSM release for the period and expected CSM release for the period for with-profit contracts.
- Movements in the fair value of instruments held to mitigate equity risk in the future with-profits shareholder transfer and to optimise the Group's capital position on a Solvency II basis.
- Difference between actual and long-term expected investment return on surplus assets backing the shareholder annuity capital and excess assets in the With-Profits Fund measured on an IFRS basis.
- Foreign exchange movements on the US dollar subordinated debt held in the Corporate Centre.
- Fair value movements on strategic investments.
- Impact of short term credit risk provisioning and experience variances on the measurement of best estimate liabilities, specifically:
  - The impact of credit risk provisioning for short-term adverse credit risk experience.
  - The impact of credit risk provisioning for actual upgrade and downgrade experience during the year. This is calculated by reference to current interest rates.
  - Credit experience variance relative to long-term assumptions, reflecting the impact of defaults and other similar experience, such as asset exchanges arising from debt restructuring.
  - The impact of market movements on bond portfolio weightings and the subsequent impact on credit provisions.

Mismatches arising on the application of IFRS 17

The application of IFRS 17 results in the following mismatches in valuation basis being recognised in total profit/loss before tax. For the purposes of calculating adjusted operating profit before tax the impact of the mismatch has been excluded.

- Difference between the value under IFRS 17 General Measurement Model for non-profit contracts (primarily annuities) written in the With-Profits Fund and how these contracts are treated in determining their fair value when assessing current and future with-profits contracts under the Variable Fee Approach.
- Mismatch resulting from measurement of fulfilment cashflows for shareholder non-profit business (primarily annuities) using current interest rates while related changes to the CSM are measured using locked-in rates.

Amortisation and impairment of intangible assets acquired in business combinations

Amortisation and impairment of intangible assets (including goodwill) acquired in business combinations are excluded from adjusted operating profit before tax.

Profit/(loss) on disposal of businesses and corporate transactions

Certain additional items are excluded from adjusted operating profit before tax where those items are considered to be non-recurring or strategic, or considered to be one-off, due to their size or nature, and therefore not indicative of the long-term operating performance of the Group, including profits or losses arising on corporate transactions and profits or losses on discontinued operations.

Restructuring and other costs

Restructuring and other costs primarily reflect the shareholder allocation of costs associated with the transformation of our business. These costs represent fundamental Group-wide restructuring and transformation and are therefore excluded from adjusted operating profit before tax.

3.3 Analysis of Group adjusted operating profit before tax by segment

On 1 January 2023 we adopted the new accounting standard IFRS 17 Insurance Contracts which has led to changes to our adjusted operating profit methodology. As a result, adjusted operating profit before tax for the year ended 31 December 2022 and the six months ended 30 June 2022 has been restated from that reported previously. The restatement is driven by the change in profit recognition profile of the annuities and with-profits business in the Retail and Savings segment as a result of the new insurance standard and also other changes to our adjusted operating profit methodology, unrelated to the adoption of IFRS 17, which were implemented at the same time. These unrelated changes to our adjusted operating methodology are to classify foreign exchange movements on non-GBP denominated subordinated debt and fair value movements on strategic investments as non-operating items.

The overall impact of the restatement on adjusted operating profit before tax is summarised in the tables that follow for both the year ended 31 December 2022 and the six months ended 30 June 2022:

Adjusted operating profit before tax for the year ended 31 December 2022	As previously reported	Changes as a result of IFRS 17	Other AOP methodology changes	Restated
	£m	£m	£m	£m
Asset Management	264	—	—	264
Retail and Savings	572	46	—	618
Corporate Centre	(307)	—	50	(257)
Adjusted operating profit before tax	529	46	50	625

Adjusted operating profit before tax for the six months ended 30 June 2022	As previously reported	Changes as a result of IFRS 17	Other AOP methodology changes	Restated
	£m	£m	£m	£m
Asset Management	124	—	—	124
Retail and Savings	226	68	—	294
Corporate Centre	(168)	—	48	(120)
Adjusted operating profit before tax	182	68	48	298

	For the six months ended 30 June		For the year ended 31 December
	2023	Restated 2022	Restated 2022
	£m	£m	£m
Asset Management	**118**	124	264
Retail and Savings	**374**	294	618
Corporate Centre	**(102)**	(120)	(257)
Total segmented adjusted operating profit before tax	**390**	298	625
Short-term fluctuations in investment returns[i]	**(177)**	(1,614)	(2,858)
Mismatches arising on application of IFRS 17	**(40)**	(50)	(244)
Amortisation of intangible assets acquired in business combinations	**(6)**	(3)	(35)
Restructuring and other costs[ii]	**(74)**	(64)	(147)
IFRS profit/(loss) before tax and non-controlling interests attributable to equity holders	**93**	(1,433)	(2,659)
IFRS profit attributable to non-controlling interests[iii]	**8**	8	19
IFRS profit/(loss) before tax attributable to equity holders	**101**	(1,425)	(2,640)

[i] Market conditions have led to lower losses from short-term fluctuations in investment returns in the current period with the impact of rising rates in the six months to 30 June 2023 not as significant as the six months to 30 June 2022. The overall losses primarily comprise of a £118m loss (30 June 2022: £602m, year ended 31 December 2022: £989m) on interest rate swaps purchased to protect PAC's Solvency II capital position against falls in interest rates and £22m loss (30 June 2022: £817m loss, year ended 31 December 2022: £1,301m loss) from the difference in actual and long-term expected investment return on surplus assets backing the annuity portfolio, both of which have significantly reduced due to the smaller increase in yields in 2023 compared to 2022. These losses were partly offset by a gain on the foreign exchange movement on US dollar denominated subordinated debt of £23m (30 June 2022: £48m loss, year ended 31 December 2022: £50m loss).

[ii] 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 6 which include costs allocated to the Policyholder. In the six months to 30 June 2023 restructuring and other costs include £40m (30 June 2022: £33m, year ended 31 December 2022: £48m) in relation to transformation programmes, £15m (30 June 2022: £15m, year ended 31 December 2022: £36m) in respect of investment spend in building out capability in our Asset Management business and £11m (30 June 2022: £16m, year ended 31 December 2022: £32m) in respect of the development of the M&G Wealth platform business.

[iii] Excludes non-controlling interests in relation to amortisation of intangible assets acquired in business combinations which is presented net within the non-operating line item.

3.4 Analysis of Group revenue by segment

The following table shows revenue by segment for the Group:

	For the six months ended 30 June		For the year ended 31 December
	2023	2022	2022
	£m	£m	£m
Retail and Savings	**1,815**	1,783	3,587
Total segmented insurance revenue	**1,815**	1,783	3,587
Asset Management[i]	**507**	503	1,051
Retail and Savings	**71**	75	150
Total segmented fee income	**578**	578	1,201
Asset Management	**3**	—	—
Retail and Savings	**1,444**	1,113	2,393
Corporate Centre	**25**	9	26
Total segmented interest revenue	**1,472**	1,122	2,419

[i] The Asset Management segmented fee income differs from the fee income in Note 5 due to the netting of certain items that have a nil profit impact in adjusted operating profit. Asset management fee income includes net inter-segment fee income of £70m (30 June 2022: £72m, year ended 31 December 2022: £164m).

The Group has a widely diversified client base. There are no clients whose revenue represents greater than 10% of fee income.

4 Insurance revenue

The Group's exposure to risks arising from insurance assets and liabilities is different for each component of the Group's business. The Group's Insurance revenue is presented below for the different components of business.

	For the six months ended 30 June 2023			
	With-profits sub-funds	**Unit-linked liabilities**	**Annuity and other long-term business**	**Total**
	£m	**£m**	**£m**	**£m**
Amounts relating to the changes in the liability for remaining coverage:				
Expected incurred claims and other expenses after loss component allocation	**827**	**19**	**583**	**1,429**
Change in the risk adjustment for non-financial risk for the risk expired after loss component allocation	**8**	**—**	**14**	**22**
CSM recognised in profit or loss for the services provided	**267**	**4**	**68**	**339**
Insurance acquisition cash flows recovery	**10**	**—**	**15**	**25**
Total insurance revenue	**1,112**	**23**	**680**	**1,815**

	For the six months ended 30 June 2022			
	With-profits sub-funds	Unit-linked liabilities	Annuity and other long-term business	Total
	£m	£m	£m	£m
Amounts relating to the changes in the liability for remaining coverage:				
Expected incurred claims and other expenses after loss component allocation	842	18	581	1,441
Change in the risk adjustment for non-financial risk for the risk expired after loss component allocation	10	—	19	29
CSM recognised in profit or loss for the services provided	240	3	56	299
Insurance acquisition cash flows recovery	2	—	12	14
Total insurance revenue	1,094	21	668	1,783

	For the year ended 31 December 2022			
	With-profits sub-funds	Unit-linked liabilities	Annuity and other long-term business	Total
	£m	£m	£m	£m
Amounts relating to the changes in the liability for remaining coverage:				
Expected incurred claims and other expenses after loss component allocation	1,623	37	1,166	2,826
Change in the risk adjustment for non-financial risk for the risk expired after loss component allocation	22	—	41	63
CSM recognised in profit or loss for the services provided	526	11	127	664
Insurance acquisition cash flows recovery	9	—	25	34
Total insurance revenue	2,180	48	1,359	3,587

5 Fee income

The following table disaggregates management fee revenue by segment:

	For the six months ended 30 June		For the year ended 31 December
	2023	2022	2022
	£m	£m	£m
Management fees	**441**	433	870
Rebates	**(10)**	(13)	(24)
Performance fees and carried interest	**6**	11	41
Total Asset Management fee income	**437**	431	887
Investment contracts without DPF	**18**	22	42
Platform fees	**15**	17	31
Advice fees	**38**	36	77
Total Retail and Savings fee income	**71**	75	150
Total fee income	**508**	506	1,037

6 Administrative and other expenses

	For the six months ended 30 June		For the year ended 31 December
	2023	Restated[i] 2022	Restated[i] 2022
	£m	£m	£m
Staff and employment costs	**437**	379	791
Acquisition costs incurred:			
Investment contracts without DPF	**7**	9	9
Other contracts	**69**	64	138
Acquisition costs deferred:			
Investment contracts without DPF	**—**	(1)	—
Other contracts	**(1)**	(4)	(6)
Amortisation of deferred acquisition costs:			
Other contracts	**2**	2	10
Impairment of deferred acquisition costs	**—**	—	1
Depreciation of property, plant and equipment	**68**	71	142
Impairment of property, plant and equipment[ii]	**14**	45	3
Amortisation of intangible assets	**17**	15	34
Impairment of goodwill and intangible assets	**6**	—	25
Restructuring costs	**108**	113	228
Interest expense	**84**	57	136
Commission expense	**79**	94	193
Investment management fees	**64**	72	132
Property-related costs	**91**	106	192
Other expenses	**416**	581	1,064
Total expenses	**1,461**	1,603	3,092
Less amounts directly attributable to insurance results:			
Expenses attributed to insurance acquisition cash flows incurred during the year	**(70)**	(52)	(147)
Other directly attributable expenses	**(338)**	(337)	(690)
Total administrative and other expenses	**1,053**	1,214	2,255

[i] The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.3.1 for further information. Additionally, following a review of the Group's presentation of tax positions within consolidated investment funds, comparative amounts have been restated from those previously reported with the restatement having no impact on profit for the year or net assets. See Note 1.2 for further information. Furthermore, Staff and employment costs, Restructuring costs and Other expenses have been restated to reflect corrected allocations for the 30 June 2022 comparatives.

[ii] Includes impairment of certain property, plant and equipment held by the Group's infrastructure capital private equity vehicles of £3m (30 June 2022: £45m, year ended 31 December 2022: £11m).

In addition to the interest expense shown above of £84m (30 June 2022: £57m, 31 December 2022: £136m), the interest expense incurred in respect of subordinated liabilities for the six months ended 30 June 2023 was £79m (30 June 2022: £80m, year ended 31 December 2022: £162m). This is shown as finance costs in the condensed consolidated income statement.

7 Tax

7.1 Tax charged/(credited) to the consolidated income statement

Following a review of the Group's presentation of tax positions within consolidated investment funds, comparative amounts have been restated from those previously reported throughout this tax note with the restatement having no impact on profit for the year or net assets. See Note 1.2 for further information. The comparative amounts have also been restated for the first time adoption of IFRS 17 and IFRS 9 and restated throughout this tax note. See Note 1.3.1 for further information.

7.1.1 Income statement tax charge/(credit)

	For the six months ended 30 June		For the year ended 31 December
	2023	Restated 2022	Restated 2022
	£m	£m	£m
Total current tax	**170**	78	139
Total deferred tax	**(117)**	(702)	(1,103)
Total tax charge/(credit)	**53**	(624)	(964)

7.1.2 Allocation of profit/(loss) before tax and tax charge between equity holders and policyholders

The profit before tax reflected in the condensed consolidated income statement for the six months ended 30 June 2023 of £128m (30 June 2022: £1,767m loss) comprises the pre-tax result attributable to equity holders and an amount equal and opposite to the tax charge attributable to policyholder returns. This is the formal measure of profit or loss before tax under IFRS, but it is not the result attributable to equity holders. This is principally because the corporate taxes of the Group include taxes borne by policyholders. These amounts are required to be included in the tax charge of the company under IFRS.

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

	For the six months ended 30 June						For the year ended 31 December		
	2023			Restated 2022			Restated 2022		
	Equity holders	Policyholders	Total	Equity holders	Policyholders	Total	Equity holders	Policyholders	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Profit/(loss) before tax	**101**	**27**	**128**	(1,425)	(342)	(1,767)	(2,640)	(379)	(3,019)
Tax (charge)/credit	**(26)**	**(27)**	**(53)**	282	342	624	585	379	964
Profit/(loss) for the period	**75**	**—**	**75**	(1,143)	—	(1,143)	(2,055)	—	(2,055)

7.1.3 Equity holders' effective tax rate

The equity holders tax charge for the six months ended 30 June 2023 was £26m (30 June 2022: tax benefit of £282m, 31 December 2022: tax benefit of £585m) representing an effective tax rate of 25.7% (30 June 2022: 19.8%, 31 December 2022: 22.2%). The equity holders' effective tax rate of 25.7% was higher than the UK statutory rate of 23.5% (30 June 2022: 19%, 31 December: 19%) primarily due to the detrimental impact arising from non-deductible expenses.

7.1.4 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 Group has unused tax losses carried forward in relation to UK capital losses of £477m, on which no deferred tax is 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.

Amendments to IAS 12 International Tax Reform – Pillar Two Model Rules

On 23 May 2023, the IASB issued amendments to IAS 12 'International Tax Reform – Pillar Two Model Rules', which became effective immediately and were approved for adoption by the UK Endorsement Board on 19 July 2023. On 20 June 2023, legislation was substantively enacted in the UK to introduce the OECD's Pillar Two global minimum tax rules and a UK qualified domestic minimum top-up tax, with effect from 1 January 2024. The Group has applied the IAS 12 exemption from recognising and disclosing information on associated deferred tax assets and liabilities.

7.2 Current tax assets and liabilities

	Current tax assets		Current tax liabilities	
	As at 30 June 2023	As at 31 December Restated 2022	As at 30 June 2023	As at 31 December Restated 2022
	£m	£m	£m	£m
Corporation tax	**270**	255	**(64)**	(58)

One of the Group's subsidiaries, The Prudential Assurance Company Limited (PAC), is the lead litigant in a combined group action against HM Revenue and Customs (HMRC) concerning the correct historical tax treatment applying to dividends received from overseas portfolio investments of its With-Profits Fund.

In February 2018, the Supreme Court heard HMRC's appeal against the earlier Court of Appeal decision in PAC's favour. The decision of the Supreme Court, released in July 2018, upheld the main point of dispute in PAC's favour but reversed the decisions of the lower courts on some practical points of how to apply that principle. The Supreme Court issued its order giving effect to its decision in October 2019, stating any remaining issues of computation be remitted back to the High Court. PAC and HMRC are working through the mechanics of implementing the Supreme Court decisions. To date, this work has led to a reduction in the estimate for policyholder tax credit recoverable, and the associated estimate of interest receivable.

As at 30 June 2023, PAC has recognised a total policyholder tax credit of £114m (31 December 2022: £114m) in respect of its claim against HMRC. Of this amount, £40m (31 December 2022: £40m) has been paid by HMRC leaving a tax recoverable balance of £74m (31 December 2022: £74m) recorded as an amount of tax due from HMRC. PAC will be entitled to interest on the tax repaid. As a result of the COVID pandemic the timing to finalise the issue has been further delayed. It is now expected to be finalised during the second half of 2023 at which point PAC should receive full and final payment.

7.3 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.

The table below shows the closing deferred tax assets and liabilities. The asset and liability balances are different from those disclosed on the condensed consolidated statement of financial position as the below amounts are presented before offsetting asset and liability balances where there is a legal right to set off and an intention to settle on a net basis.

	For the six months ended 30 June 2023 £m	For the year ended 31 December Restated 2022 £m
Unrealised gains on investments	**(693)**	(820)
Balance relating to insurance and investments contracts	**(238)**	(221)
Other short-term timing differences	**130**	126
Deferred acquisition costs	**31**	37
Defined benefit pensions	**(33)**	(39)
Capital allowances	**—**	13
Tax losses carried forward	**583**	528
Share based payments and deferred compensation	**14**	26
Net deferred tax liability	**(206)**	(350)
Assets	**1,052**	1,037
Liabilities	**(1,258)**	(1,387)
Net deferred tax liability	**(206)**	(350)

The net deferred tax liability at 30 June 2023 of £206m has reduced by £144m during the period from £350m at 31 December 2022 (30 June 2022: net deferred tax liability £980m). The reduction is predominantly due to a reduction of deferred tax liability arising on unrealised gains in the period together with an increase to the deferred tax asset on losses. The losses carried forward of £583m relate primarily to PAC and M&G plc. A deferred tax asset has been recognised on the full excess losses, 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 15 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.

7.3.1 Unrecognised deferred tax

At the end of the reporting period, the Group has unused tax losses of £486m (30 June 2022: £490m, 31 December 2022: £481m) for which no deferred tax asset is being recognised. The Group's unused tax losses primarily relate to capital losses in the UK of £477m (31 December 2022: £472m). 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.

8 Earnings per share

Basic earnings per share for the six months ended 30 June 2023 was 2.9p (30 June 2022: 45.2p loss per share, 31 December 2022: 83.6p loss per share) and diluted earnings per share was 2.9p (30 June 2022: 45.2p loss per share, 31 December 2022: 83.6p loss 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 weighted average ordinary shares in issue reflects the impact of the share buy-back during 2022.

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

	For the six months ended 30 June 2023 £m	For the six months ended 30 June Restated[i] 2022 £m	For the year ended 31 December Restated[i] 2022 £m
Profit/(loss) attributable to equity holders of the Company	68	(1,149)	(2,068)

	For the six months ended 30 June 2023 Millions	For the six months ended 30 June 2022 Millions	For the year ended 31 December 2022 Millions
Weighted average number of ordinary shares outstanding	**2,348**	2,539	2,474
Dilutive effect of share options and awards	**25**	—	—
Weighted average number of diluted ordinary shares outstanding	**2,373**	2,539	2,474

	For the six months ended 30 June		For the year ended 31 December
	2023	Restated[i] 2022	Restated[i] 2022
	Pence per share	Pence per share	Pence per share
Basic earnings/(loss) per share	**2.9**	(45.2)	(83.6)
Diluted earnings/(loss) per share	**2.9**	(45.2)	(83.6)

[i] The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.3.1 for further information.

As the Group has made a loss attributable to equity holders of the Company for the year ended 31 December 2022 and the six months ended 30 June 2022, the diluted earnings per share is the same as the basic earnings per share as it is not permissible for the diluted earnings per share to be greater than the basic earnings per share.

9 Dividends

	For the six months ended 30 June				For the year ended 31 December	
	2023		2022		2022	
	Pence per share	£m	Pence per share	£m	Pence per share	£m
Dividends relating to reporting period:						
First interim dividend – Ordinary	**6.5**	**153**	6.2	154	6.2	154
Second interim dividend – Ordinary	—	—	—	—	13.4	310
Total	—	**153**	6.2	154	19.6	464
Dividends paid in reporting period:						
Prior year's second interim dividend - Ordinary	**13.4**	**310**	12.2	311	12.2	311
First interim dividend – Ordinary	—	—	—	—	6.2	154
Total		**310**		311		465

Subsequent to 30 June 2023, the Board has declared a first interim dividend for 2023 of 6.5 pence per ordinary share, an estimated £153m in total. The dividend is expected to be paid on 3 November 2023 and will be recorded as an appropriation of retained earnings in the financial statements at the time that it is paid.

10 Defined benefit pension schemes

The Group operates three defined benefit pension schemes. The largest defined benefit scheme as at 30 June 2023 is the Prudential Staff Pension Scheme (PSPS), which accounts for 82% (31 December 2022: 82%) of the present value of the defined benefit pension obligation.

The Group also operates two smaller defined benefit pension schemes that were originally established by the M&G (M&GGPS) and Scottish Amicable (SASPS) businesses.

Under IAS 19: Employee Benefits and IFRIC 14: IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, the Group can only recognise a surplus to the extent that it is able to access the surplus either through an unconditional right of refund or through reduced future contributions relating to ongoing service of active members. The Group has no unconditional right of refund to any surplus in PSPS. Accordingly, PSPS's net economic pension surplus is restricted up to the present value of the Group's economic benefit, which is calculated as the difference between the estimated future cost of service for active members and the estimated future ongoing contributions. The level of the restriction is set out in the table below. The net economic pension surplus is attributed 70% to the With-Profits Fund and 30% to the Group's shareholders.

In contrast, the Group is able to access the surplus of SASPS and M&GGPS through an unconditional right of refund. Therefore, the surplus resulting from these schemes is recognised in full. As at 30 June 2023 the SASPS and M&GGPS schemes are in surplus based on the IAS 19 valuation. Under IAS 19, non-transferable insurance policies issued by a related party do not qualify as plan assets. Therefore, as at 30 June 2023, investments in insurance policies issued by Prudential Pensions Limited, (a subsidiary of the Group, through which it invests in certain pooled funds), were deducted from the M&GGPS surplus, on an IAS 19 basis. All holdings had previously been divested during 2022 so no deduction has been made to the comparative period.

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 2023			
	PSPS	SASPS	M&GGPS	Total
	£m	£m	£m	£m
Fair value of plan assets	**4,355**	**550**	**412**	**5,317**
Present value of defined benefit obligation	**(3,815)**	**(539)**	**(298)**	**(4,652)**
Effect of restriction on surplus	**(531)**	**—**	**—**	**(531)**
Net economic pension surplus[i]	**9**	**11**	**114**	**134**
Eliminate group issued insurance policies	**—**	**—**	**(25)**	**(25)**
Net pension surplus	**9**	**11**	**89**	**109**

	As at 30 June 2023			
	PSPS	SASPS	M&GGPS	Total
	£m	£m	£m	£m
Attributable to:				
Shareholder-backed business	**3**	**7**	**89**	**99**
With-Profits Fund	**6**	**4**	**—**	**10**
Net pension surplus	**9**	**11**	**89**	**109**

[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.

	As at 31 December 2022			
	PSPS	SASPS	M&GGPS	Total
	£m	£m	£m	£m
Fair value of plan assets	4,641	582	442	5,665
Present value of defined benefit obligation	(4,050)	(566)	(313)	(4,929)
Effect of restriction on surplus	(581)	—	—	(581)
Net economic pension surplus[i]	10	16	129	155
Eliminate group issued insurance policies	—	—	—	—
Net pension surplus	10	16	129	155

	As at 31 December 2022			
	PSPS	SASPS	M&GGPS	Total
	£m	£m	£m	£m
Attributable to:				
Shareholder-backed business	3	10	129	142
With-Profits Fund	7	6	—	13
Net pension surplus	10	16	129	155

11 Insurance contracts, investment contracts with DPF and reinsurance contract assets and liabilities

11.1 Determination of insurance contracts, investment contracts with DPF and reinsurance contract assets and liabilities for different components of business

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

11.1.1 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 with-profits contracts are a combination of insurance contracts, investment contracts with discretionary participation features and investment contracts without discretionary participation features. The insurance contracts and investment contracts with discretionary participation features, which together comprise the majority of the Group's with-profits business, are within the scope of IFRS 17. The investment contracts without discretionary participation features are within the scope of IFRS 9 and are presented in Note 12.

For the with-profits contracts the insurance contract liability is the sum of the liability for incurred claims and the liability for remaining coverage, which comprises:

- the fair value of the underlying items for in-force contracts, i.e. the value of the asset shares and the expected future additions to asset shares, plus the present value of future costs less charges;
- the allowance for "mutualisation" on in-force business;
- the risk adjustment for non-financial risk;
- the CSM; and

the historical allowance for "mutualisation" (based on the underlying items for the additional amounts expected to be paid to current or future policyholders).

These items are described further below.

Future costs less charges

The future costs include a market-consistent valuation of the costs of guarantees, options and smoothing and this amount is determined using stochastic modelling techniques. The main assumptions used to value the future costs less charges are listed below:

Assumptions relating to persistency and the take-up of options offered on certain with-profits contracts are set based on the results of the most recent experience analysis looking at the experience over recent years of the relevant business, and supplemented by expert judgement within the business;

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. They reflect the costs incurred by the Group which may differ from the internal charges to companies within the Group;

Expense inflation assumptions are set consistent with the economic basis and based on the inflation swap spot curve;

The contract liabilities for with-profits business also require assumptions for mortality. These are set based on the results of recent experience analysis. Mortality experience over 2020 and 2021 was significantly higher than previous years as a result of the COVID-19 pandemic. No weight has been given to 2020 or 2021 experience in calibrating mortality assumptions; and

Future investment return assumptions and discount rates are set at a risk-free yield curve plus an illiquidity premium (as set out in Note 1.4.1). The illiquidity premium has been determined at each reporting date by applying a weighting of 75% to the illiquidity premium for the reference portfolio of fixed interest assets. The volatility of investment returns are set with reference to implied volatility data on traded market instruments, where available, or on a best estimate basis where not.

Risk-free yield curve for with-profits contracts (excluding illiquidity premium)

	1 year	5 years	10 years	15 years	20 years
As at 30 June 2023	**6.06%**	**5.03%**	**4.25%**	**4.03%**	**3.88%**
As at 30 June 2022	2.49%	2.52%	2.36%	2.32%	2.27%
As at 31 December 2022	4.46%	4.06%	3.71%	3.62%	3.54%

Illiquidity premiums for with-profits contracts

	As at 30 June		As at 31 December
	2023	2022	2022
Illiquidity premium	**50 bps**	83 bps	55 bps

Allowances for mutualisation

The allowance for mutualisation on in-force business is the policyholders' share, which is assumed to be 90% (consistent with the division of profits permitted by the Articles of Association), of the expected future surpluses arising from with-profits contracts, which are determined as:

the discounted value of the amounts that will be charged to policies;

less: the discounted value of future shareholder transfers, gross of tax;

less: the discounted value of other costs directly attributable to the group of insurance contracts; and

less: the amount of any additional tax attributable to the above items.

The allowance for mutualisation on in-force business is included in the liabilities of the groups of insurance contracts.

The historical allowance for mutualisation is the policyholders' share of the surpluses that have arisen in the past, which are determined as the policyholders' share of the fair value of the underlying items for the additional amounts expected to be paid to current or future policyholders less, if required, an allowance for any further tax balances that should be apportioned between policyholders and shareholders. The policyholders' share is assessed on a prospective basis and is assumed to be 90%, consistent with the division of profits permitted by the Articles of Association. The fair value of the underlying items reflects inter alia the fair value of the annuity contracts in the With-Profits Fund.

The historical allowance for mutualisation is separate from the liabilities of the groups of insurance contracts (in accordance with IFRS 17 paragraph B71) and the Group has chosen to present this as part of the liability for remaining coverage.

With-profits options and guarantees

Certain policies written in the Group's With-Profits Fund give potentially valuable guarantees to policyholders, or options to change policy benefits which can be exercised at the policyholders' discretion.

Most with-profits contracts give a guaranteed minimum payment on a specified date or range of dates or on death if before that date or dates. For pensions products, the specified date is the policyholder's chosen retirement date or a range of dates around that date. For endowment contracts, guarantees apply at the maturity date of the contract. For with-profits bonds it is often a specified anniversary of commencement, in some cases with further dates thereafter.

The main types of options and guarantees offered for with-profits contracts are as follows:

For conventional with-profits contracts, including endowment assurance contracts and whole of-life assurance contracts, payouts are guaranteed at the sum assured together with any declared regular bonus;

Conventional with-profits deferred annuity contracts have a basic annuity per annum to which bonuses are added. At maturity, the cash claim value will reflect the current cost of providing the deferred annuity. Regular bonuses when added to with-profits contracts usually increase the guaranteed amount;

For unitised with-profits contracts and cash accumulation contracts the guaranteed payout is the initial investment (adjusted for any withdrawals, where appropriate), less charges, plus any regular bonuses declared. If benefits are taken at a date other than when the guarantee applies, a market value reduction may be applied to reflect the difference between the accumulated value of the units and the market value of the underlying assets;

For certain unitised with-profits contracts and cash accumulation contracts, policyholders have the option to defer their retirement date when they reach maturity, and the terminal bonus granted at that point is guaranteed;

For with-profits annuity contracts, there is a guaranteed minimum annuity payment below which benefit payments cannot fall over the lifetime of the policies; and

Certain pensions products have guaranteed annuity options at retirement, where the policyholder has the option to take the benefit in the form of an annuity at a guaranteed conversion rate.

Risk adjustment for non-financial risk

The table below shows the confidence level used to determine the risk adjustment for with-profits contracts:

	As at 30 June		As at 31 December
	2023	2022	2022
Confidence level (percentile of the Group's one year risk distributions)	**75th**	75th	75th

Contractual service margin

The Variable Fee Approach is used to measure the CSM for with-profits business.

For contracts that provide both insurance coverage and investment-related services the amount of the services provided in any given period is measured as the greater of the asset shares and the amounts payable on death during that period.

11.1.2 Unit-linked business

Only unit-linked contracts that transfer significant insurance risk are within the scope of IFRS 17. For these contracts the insurance contract liability is the sum of the liability for incurred claims and the liability for remaining coverage, which comprises:

the fair value of the underlying items, i.e. the value of the unit funds, plus the present value of future costs less charges;

the risk adjustment for non-financial risk; and

the CSM.

Future cash flows

The present value of future costs less charges is determined using best estimate assumptions for the non-financial risks of mortality, on a basis that is appropriate for the policyholder profile, expenses and persistency. The assumed unit fund growth rates are consistent with the discount rates applied to the cash flows.

Risk-free yield curve for unit-linked contracts

	1 year	5 years	10 years	15 years	20 years
As at 30 June 2023	**6.06%**	**5.03%**	**4.25%**	**4.03%**	**3.88%**
As at 30 June 2022	2.49%	2.52%	2.36%	2.32%	2.27%
As at 31 December 2022	4.46%	4.06%	3.71%	3.62%	3.54%

The unit-linked contracts are considered to be highly liquid as they can be surrendered at any time by the policyholder for a surrender value which is the value of the units less any surrender charge. Therefore the cash flows are discounted using rates derived from the risk-free yield curve without addition of an illiquidity premium.

Certain parts of the unit-linked business are reinsured externally by way of fund reinsurance. Where this is the case, the fair value of the underlying asset and liability is equal to the unit value obligation.

Risk adjustment for non-financial risk

The table below shows the confidence level used to determine the risk adjustment for unit-linked contracts:

	As at 30 June		As at 31 December
	2023	2022	2022
Confidence level (percentile of the Group's one year risk distributions)	**75th**	75th	75th

Contractual service margin

The Variable Fee Approach is used to measure the CSM for unit-linked business.

The amount of the services provided in any given period is measured as the greater of the unit funds and the amounts payable on death during that period.

11.1.3 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 insurance contract liabilities are calculated as the sum of the liability for incurred claims and the liability for remaining coverage, which comprises:

- the expected value of future annuity payments and expenses;
- the risk adjustment for non-financial risk; and
- the CSM.

Future cash flows

The key assumptions used to value the future cash flows for annuity contracts, both insurance contracts issued and reinsurance contracts held, are described below.

Mortality

Mortality assumptions for annuity business are set in light of recent population and internal experience, with an allowance for expected future mortality improvements. Given the long-term nature of annuity business, annuitant mortality remains a significant assumption in determining insurance liabilities.

The assumptions used reference recent England & Wales population mortality data, consistent with the CMI mortality projections model with specific risk factors applied on a per policy basis to reflect the features of the Group's portfolio.

An increase in mortality rates was observed over 2020 and 2021 due to the COVID-19 pandemic. Higher mortality experience may be expected to continue to some extent over the short-term, with significant excess deaths observed in the population over 2022. However, there is significant uncertainty and the longer-term implications for mortality rates amongst the annuitant population are unknown at this stage. In line with broader industry approach, zero weight has been given to pandemic experience. This is an area that will continue to be monitored by the Group.

No changes have been made to best-estimate assumptions for current mortality or mortality improvements in the six months ended 30 June 2023. The mortality improvement assumptions used are summarised in the table below, with all other assumptions reflecting the core CMI projection:

Period ended	Model version[i,ii]	Long-term improvement rate	Smoothing parameter (Sk)[iii]
30 June 2023	**CMI 2020**	**For males: 1.60% pa** **For females: 1.60% pa**	**For males: 7.25** **For females: 7.75**
30 June 2022	CMI 2019	For males: 1.75% pa For females: 1.50% pa	For males: 7.50 For females: 8.00
31 December 2022	CMI 2020	For males: 1.60% pa For females: 1.60% pa	For males: 7.25 For females: 7.75

[i] A parameter in the model to reflect socio-economic differences between the portfolio and population experience is also utilised. This adjusts initial mortality improvement rates, varying by age and gender. This is unchanged at all ages relative to 31 December 2022. At 30 June 2022 this was 0.45% at all ages.

[ii] The tapering of improvements to zero is set to occur between ages 90-110 at 30 June 2023, which is unchanged from 31 December 2022. This occurred between ages 85-110 at 30 June 2022.

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

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

Valuation interest rates

Valuation interest rates used to discount the cash flows are derived from an appropriate risk-free yield curve plus an illiquidity premium, derived using a top-down approach, that reflects the illiquidity characteristics of the cash flows. Using the top-down approach the illiquidity premium is derived from the yield of a reference portfolio of assets which is adjusted to eliminate any factors that are not relevant to the annuity contracts. However, it is not required to adjust the yield curve for differences in the liquidity characteristics of the insurance contracts and the reference portfolio.

The discount rate used to value annuity contracts is as follows:

	1 year	5 years	10 years	15 years	20 years
As at 30 June 2023	**7.80%**	**6.77%**	**5.99%**	**5.77%**	**5.62%**
As at 30 June 2022	4.05%	4.08%	3.92%	3.88%	3.83%
As at 31 December 2022	6.16%	5.76%	5.41%	5.32%	5.24%

The reference portfolios chosen for annuities are the Assigned Portfolios used for the SII Matching Adjustment. These are considered to be suitable as reference portfolios for IFRS 17 reporting because their objective is to closely match the liability cash flows and there is strong governance around their management.

The largest adjustment made to reference portfolio yield is in relation to credit risk. IFRS 17 is not prescriptive as to how the adjustment for credit risk should be determined other than that it should reflect market risk premiums for credit risk. The Group continues to calculate the credit risk adjustment using the same approach previously used for IFRS 4 reporting. This methodology is considered appropriate for IFRS 17 reporting as it incorporates allowances for expected and unexpected credit events, including internal and external views on the outlook for credit risk, and considers the relationship between credit risk and yield spreads. The credit risk allowance comprises an amount for long-term best estimate defaults and downgrades, a provision for credit risk premium, and where appropriate an additional short-term overlay to reflect the prospective outlook for experience over the coming period, including uncertainty in the outlook. The allowance for credit risk within the discount rate for shareholder annuities as at 30 June 2023 was 55bps (30 June 2022: 45bps, 31 December 2022: 50bps). The short-term allowance has been increased as at 30 June 2023 following adverse downgrade experience over the first half of 2023, and a deteriorating future outlook for the UK economy.

The approach outlined above is also used to derive the discount rates applied to reinsurance cash flows.

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. They reflect the costs incurred by the Group which may differ from the internal charges to companies within the Group. Expense inflation assumptions are set consistent with the economic basis and based on the inflation swap spot curve. These assumptions therefore take recent increases in inflation into account, and allow for the market-driven long-term view of future inflation.

Risk adjustment for non-financial risk

The table below shows the confidence level used to determine the risk adjustment for annuities and other long-term business:

	As at 30 June		As at 31 December
	2023	2022	2022
Confidence level (percentile of the Group's one year risk distributions)	**75th**	75th	75th

Contractual service margin

The General Measurement Model is used to measure the CSM for annuities and other long-term business.

11.2 Movements in insurance, investment with DPF and reinsurance contract balances

The breakdown of groups of insurance, investment with DPF and reinsurance contracts issued, and reinsurance contracts held, that are in an asset position and those in a liability position is set out in the table below:

	2023			
		Shareholder-backed funds and subsidiaries		
	With-profits sub-funds[i]	Unit-linked liabilities	Annuity and other long-term business	Total
As at 30 June	**£m**	**£m**	**£m**	**£m**
Insurance contract liabilities				
Insurance contract balances	**30,945**	**4,520**	**13,193**	**48,658**
Investment with DPF contract liabilities	**91,109**	**—**	**233**	**91,342**
	122,054	**4,520**	**13,426**	**140,000**
Insurance contract assets				
Insurance contract balances	**—**	**—**	**47**	**47**
Reinsurance contracts				
Reinsurance contract assets	**10**	**4**	**1,072**	**1,086**
Reinsurance contract liabilities	**1**	**19**	**313**	**333**

[i] Includes the With-Profits Sub-Fund (WPSF) and the Defined Charge Participating Sub-Fund (DCPSF), including the non-profit business written within these funds.

As at 31 December	2022 With-profits sub-funds[i] £m	Shareholder-backed funds and subsidiaries Unit-linked liabilities £m	Annuity and other long-term business £m	Total £m
Insurance contract liabilities				
Insurance contract balances	31,911	4,598	13,967	50,476
Investment with DPF contract liabilities	91,266	—	234	91,500
	123,177	4,598	14,201	141,976
Insurance contract assets				
Insurance contract balances	—	—	39	39
Reinsurance contracts				
Reinsurance contract assets	8	5	1,069	1,082
Reinsurance contract liabilities	1	22	325	348

The following reconciliations show how the net carrying amounts of insurance contracts, investment contracts with DPF and reinsurance contracts, changed during the year as a result of cash flows and amounts recognised in the statement of profit or loss.

For insurance contracts issued, and reinsurance contracts held, the Group presents a table that separately analyses changes in the estimates of the present value of future cash flows, the risk adjustment for non-financial risk and the CSM.

Insurance contracts

Analysis by measurement component

	For the six months ended 30 June 2023						
			Contractual service margin				
	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	Contracts under modified retrospective transition approach	Contracts under the fair value transition approach	Other contracts	Total CSM	Total
	£m	£m	£m	£m	£m	£m	£m
Opening insurance contract liabilities	135,373	624	2,041	3,694	244	5,979	141,976
Opening insurance contract assets	(76)	3	—	11	23	34	(39)
Net opening balance	135,297	627	2,041	3,705	267	6,013	141,937
Changes that relate to current services							
CSM recognised in profit or loss for the services provided	—	—	(120)	(202)	(17)	(339)	(339)
Change in the risk adjustment for non-financial risk for the risk expired	—	(22)	—	—	—	—	(22)
Experience adjustments	45	—	—	—	—	—	45
	45	(22)	(120)	(202)	(17)	(339)	(316)
Changes that relate to future services							
Contracts initially recognised in the period	(92)	3	—	—	88	88	(1)
Changes in estimates reflected in the CSM	(140)	(8)	39	132	(23)	148	—
Changes in estimates that result in onerous contract losses or reversal of those losses	(6)	1	—	—	—	—	(5)
	(238)	(4)	39	132	65	236	(6)
Changes that relate to past services							
Adjustments to liabilities for incurred claims	2	—	—	—	—	—	2
	2	—	—	—	—	—	2
Insurance service result excluding reinsurance contracts	(191)	(26)	(81)	(70)	48	(103)	(320)
Net finance expenses from insurance contracts	500	(13)	58	97	12	167	654
Total changes in the income statement	309	(39)	(23)	27	60	64	334
Cash flows							
Premiums received	4,023	—	—	—	—	—	4,023
Incurred claims paid and other insurance service expenses paid including investment component	(6,260)	—	—	—	—	—	(6,260)
Insurance acquisition cash flows	(81)	—	—	—	—	—	(81)
Total cash flows	(2,318)	—	—	—	—	—	(2,318)
Net closing balance	133,288	588	2,018	3,732	327	6,077	139,953
Closing insurance contract liabilities	133,375	585	2,018	3,722	300	6,040	140,000
Closing insurance contract assets	(87)	3	—	10	27	37	(47)
Net closing balance	133,288	588	2,018	3,732	327	6,077	139,953

	For the six months ended 30 June 2022						
			Contractual service margin				
	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	Contracts under modified retrospective transition approach	Contracts under the fair value transition approach	Other contracts	Total CSM	Total
	£m	£m	£m	£m	£m	£m	£m
Opening insurance contract liabilities	154,698	980	1,696	3,337	110	5,143	160,821
Opening insurance contract assets	(58)	3	—	10	17	27	(28)
Net opening balance	154,640	983	1,696	3,347	127	5,170	160,793
Changes that relate to current services							
CSM recognised in profit or loss for the services provided	—	—	(104)	(186)	(9)	(299)	(299)
Change in the risk adjustment for non-financial risk for the risk expired	—	(29)	—	—	—	—	(29)
Experience adjustments	37	—	—	—	—	—	37
	37	(29)	(104)	(186)	(9)	(299)	(291)
Changes that relate to future services							
Contracts initially recognised in the period	(32)	2	—	—	36	36	6
Changes in estimates reflected in the CSM	(591)	22	303	244	20	567	(2)
Changes in estimates that result in onerous contract losses or reversal of those losses	25	3	—	—	—	—	28
	(598)	27	303	244	56	603	32
Changes that relate to past services							
Adjustments to liabilities for incurred claims	1	—	—	—	—	—	1
	1	—	—	—	—	—	1
Insurance service result excluding reinsurance contracts	(560)	(2)	199	58	47	304	(258)
Net finance expenses from insurance contracts	(8,906)	(255)	11	37	—	48	(9,113)
Total changes in the income statement	(9,466)	(257)	210	95	47	352	(9,371)
Cash flows							
Premiums received	3,196	—	—	—	—	—	3,196
Incurred claims paid and other insurance service expenses paid including investment component	(6,649)	—	—	—	—	—	(6,649)
Insurance acquisition cash flows	(76)	—	—	—	—	—	(76)
Total cash flows	(3,529)	—	—	—	—	—	(3,529)
Net closing balance	141,645	726	1,906	3,442	174	5,522	147,893
Closing insurance contract liabilities	141,706	722	1,906	3,433	155	5,494	147,922
Closing insurance contract assets	(61)	4	—	9	19	28	(29)
Net closing balance	141,645	726	1,906	3,442	174	5,522	147,893

			For the year ended 31 December 2022				
			Contractual service margin				
	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	Contracts under modified retrospective transition approach	Contracts under the fair value transition approach	Other contracts	Total CSM	Total
	£m	£m	£m	£m	£m	£m	£m
Opening insurance contract liabilities	154,698	980	1,696	3,337	110	5,143	160,821
Opening insurance contract assets	(58)	3	—	10	17	27	(28)
Net opening balance	154,640	983	1,696	3,347	127	5,170	160,793
Changes that relate to current services							
CSM recognised in profit or loss for the services provided	—	—	(229)	(411)	(24)	(664)	(664)
Change in the risk adjustment for non-financial risk for the risk expired	—	(63)	—	—	—	—	(63)
Experience adjustments	63	—	—	—	—	—	63
	63	(63)	(229)	(411)	(24)	(664)	(664)
Changes that relate to future services							
Contracts initially recognised in the period	(80)	3	—	—	78	78	1
Changes in estimates reflected in the CSM	(1,425)	93	556	694	83	1,333	1
Changes in estimates that result in onerous contract losses or reversal of those losses	16	(1)	—	—	—	—	15
	(1,489)	95	556	694	161	1,411	17
Changes that relate to past services							
Adjustments to liabilities for incurred claims	9	—	—	—	—	—	9
	9	—	—	—	—	—	9
Insurance service result excluding reinsurance contracts	(1,417)	32	327	283	137	747	(638)
Net finance expenses from insurance contracts	(11,269)	(388)	18	75	3	96	(11,561)
Total changes in the income statement	(12,686)	(356)	345	358	140	843	(12,199)
Cash flows							
Premiums received	6,622	—	—	—	—	—	6,622
Incurred claims paid and other insurance service expenses paid including investment component	(13,117)	—	—	—	—	—	(13,117)
Insurance acquisition cash flows	(162)	—	—	—	—	—	(162)
Total cash flows	(6,657)	—	—	—	—	—	(6,657)
Net closing balance	135,297	627	2,041	3,705	267	6,013	141,937
Closing insurance contract liabilities	135,373	624	2,041	3,694	244	5,979	141,976
Closing insurance contract assets	(76)	3	—	11	23	34	(39)
Net closing balance	135,297	627	2,041	3,705	267	6,013	141,937

Reinsurance contracts

Analysis by measurement component

	For the six months ended 30 June 2023						
			Contractual service margin				
	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	Contracts under modified retrospective transition approach	Contracts under the fair value transition approach	Other Contracts	Total CSM	Total
	£m	£m	£m	£m	£m	£m	£m
Opening reinsurance contract liabilities	567	(95)	—	(123)	(1)	(124)	348
Opening reinsurance contract assets	(855)	(54)	(6)	(5)	(162)	(173)	(1,082)
Net opening balance	(288)	(149)	(6)	(128)	(163)	(297)	(734)
Changes that relate to current services							
CSM recognised in profit or loss for the services received	—	—	—	5	1	6	6
Change in the risk adjustment for non-financial risk for the risk expired	—	5	—	—	—	—	5
Experience adjustments	(4)	—	—	—	—	—	(4)
	(4)	5	—	5	1	6	7
Changes that relate to future services							
Contracts initially recognised in the period	1	—	—	—	—	—	1
Changes in estimates reflected in the contractual service margin	19	—	—	(9)	(10)	(19)	—
Changes in the fulfilment cash flows that do not adjust the CSM for the group of underlying contracts	(2)	—	—	—	—	—	(2)
	18	—	—	(9)	(10)	(19)	(1)
Changes that relate to past services							
Asset for incurred claims	(2)	—	—	—	—	—	(2)
	(2)	—	—	—	—	—	(2)
Insurance service result	12	5	—	(4)	(9)	(13)	4
Net finance expenses from reinsurance contracts	17	5	—	(1)	(2)	(3)	19
Total changes in the income statement	29	10	—	(5)	(11)	(16)	23
Cash flows							
Premiums and similar expenses paid	(273)	—	—	—	—	—	(273)
Amounts recovered	231	—	—	—	—	—	231
Total cash flows	(42)	—	—	—	—	—	(42)
Net closing balance	(301)	(139)	(6)	(133)	(174)	(313)	(753)
Closing reinsurance contract liabilities	545	(88)	—	(124)	—	(124)	333
Closing reinsurance contract assets	(846)	(51)	(6)	(9)	(174)	(189)	(1,086)
Net closing balance	(301)	(139)	(6)	(133)	(174)	(313)	(753)

	For the six months ended 30 June 2022						
			Contractual service margin				
	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	Contracts under modified retrospective transition approach	Contracts under the fair value transition approach	Other contracts	Total CSM	Total
	£m	£m	£m	£m	£m	£m	£m
Opening reinsurance contract liabilities	748	(161)	—	(41)	—	(41)	546
Opening reinsurance contract assets	(1,488)	(132)	(4)	(3)	(88)	(95)	(1,715)
Net opening balance	(740)	(293)	(4)	(44)	(88)	(136)	(1,169)
Changes that relate to current services							
CSM recognised in profit or loss for the services received	—	—	—	2	—	2	2
Change in the risk adjustment for non-financial risk for the risk expired	—	8	—	—	—	—	8
Experience adjustments	(16)	—	—	—	—	—	(16)
	(16)	8	—	2	—	2	(6)
Changes that relate to future services							
Changes in estimates reflected in the contractual service margin	60	(3)	(2)	(16)	(39)	(57)	—
Changes in the fulfilment cash flows that do not adjust the CSM for the group of underlying contracts	(15)	—	—	—	—	—	(15)
	45	(3)	(2)	(16)	(39)	(57)	(15)
Changes that relate to past services							
Asset for incurred claims	(2)	—	—	—	—	—	(2)
	(2)	—	—	—	—	—	(2)
Insurance service result	27	5	(2)	(14)	(39)	(55)	(23)
Net finance income from reinsurance contracts	248	95	—	—	—	—	343
Total changes in the income statement	275	100	(2)	(14)	(39)	(55)	320
Cash flows							
Premiums and similar expenses paid	(250)	—	—	—	—	—	(250)
Amounts recovered	234	—	—	—	—	—	234
Total cash flows	(16)	—	—	—	—	—	(16)
Net closing balance	(481)	(193)	(6)	(58)	(127)	(191)	(865)
Closing reinsurance contract liabilities	604	(113)	—	(52)	(1)	(53)	438
Closing reinsurance contract assets	(1,085)	(80)	(6)	(6)	(126)	(138)	(1,303)
Net closing balance	(481)	(193)	(6)	(58)	(127)	(191)	(865)

	For the year ended 31 December 2022						
			Contractual service margin				
	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	Contracts under modified retrospective transition approach	Contracts under the fair value transition approach	Other contracts	Total CSM	Total
	£m	£m	£m	£m	£m	£m	£m
Opening reinsurance contract liabilities	748	(161)	—	(41)	—	(41)	546
Opening reinsurance contract assets	(1,488)	(132)	(4)	(3)	(88)	(95)	(1,715)
Net opening balance	(740)	(293)	(4)	(44)	(88)	(136)	(1,169)
Changes that relate to current services							
CSM recognised in profit or loss for the services received	—	—	2	10	2	14	14
Change in the risk adjustment for non-financial risk for the risk expired	—	16	—	—	—	—	16
Experience adjustments	(17)	—	—	—	—	—	(17)
	(17)	16	2	10	2	14	13
Changes that relate to future services							
Changes in estimates reflected in the contractual service margin	185	(12)	(4)	(92)	(77)	(173)	—
Changes in the fulfilment cash flows that do not adjust the CSM for the group of underlying contracts	6	—	—	—	—	—	6
	191	(12)	(4)	(92)	(77)	(173)	6
Changes that relate to past services							
Asset for incurred claims	(4)	—	—	—	—	—	(4)
	(4)	—	—	—	—	—	(4)
Insurance service result	170	4	(2)	(82)	(75)	(159)	15
Net finance income from reinsurance contracts	333	140	—	(2)	—	(2)	471
Total changes in the income statement	503	144	(2)	(84)	(75)	(161)	486
Cash flows							
Premiums and similar expenses paid	(542)	—	—	—	—	—	(542)
Amounts recovered	491	—	—	—	—	—	491
Total cash flows	(51)	—	—	—	—	—	(51)
Net closing balance	(288)	(149)	(6)	(128)	(163)	(297)	(734)
Closing reinsurance contract liabilities	567	(95)	—	(123)	(1)	(124)	348
Closing reinsurance contract assets	(855)	(54)	(6)	(5)	(162)	(173)	(1,082)
Net closing balance	(288)	(149)	(6)	(128)	(163)	(297)	(734)

11.3 Expected recognition of the contractual service margin

Number of years until expected to be recognised	Insurance contracts issued	Reinsurance contracts held[i]	
	Total	Total	Net Result
As at 30 June 2023	£m	£m	£m
0 to 1 year	579	(10)	569
1 to 2 years	520	(10)	510
2 to 3 years	478	(10)	468
3 to 4 years	438	(10)	428
4 to 5 years	400	(10)	390
5 to 10 years	1,533	(54)	1,479
10 to 15 years	946	(52)	894
15 to 20 years	554	(45)	509
20 to 25 years	306	(36)	270
Over 25 years	323	(76)	247
Total	**6,077**	**(313)**	**5,764**

Number of years until expected to be recognised	Insurance contracts issued	Reinsurance contracts held[i]	
	Total	Total	Net Result
As at 31 December 2022	£m	£m	£m
0 to 1 year	573	(8)	565
1 to 2 years	514	(8)	506
2 to 3 years	473	(9)	464
3 to 4 years	433	(9)	424
4 to 5 years	396	(9)	387
5 to 10 years	1,514	(50)	1,464
10 to 15 years	935	(50)	885
15 to 20 years	549	(44)	505
20 to 25 years	303	(35)	268
Over 25 years	323	(75)	248
Total	6,013	(297)	5,716

[i] The net reinsurance contracts held represents the run off of the net of reinsurance asset CSM and reinsurance liabilities CSM.

12 Investment contract liabilities without DPF

The table below presents the analysis of change in investment contract liabilities without DPF:

	£m
As at 1 January 2022	14,884
Net Flows:	
Premiums	741
Surrenders	(1,941)
Maturities/deaths	(47)
Net flows	(1,247)
Switches	—
Changes in reserving basis[i]	30
Investment-related items and other movements[i]	(1,758)
Foreign exchange differences[i]	28
As at 31 December 2022/As at 1 January 2023	**11,937**
Net Flows:	
Premiums	**419**
Surrenders	**(537)**
Maturities/deaths	**(60)**
Net flows	**(178)**
Switches	**8**
Changes in reserving basis[i]	**—**
Investment-related items and other movements[i]	**340**
Foreign exchange differences[i]	**(92)**
As at 30 June 2023	**12,015**

[i] Investment-related items and other movements, foreign exchange differences and change in reserving basis closely align to the net change in investment contract liabilities without DPF income statement amount. The difference between the values relates to policyholder tax, reclassifications and annual management charges.

For those contracts where the level of insurance risk or discretionary participation feature 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 in line with the level of service provision.

Certain parts of the unit-linked business are reinsured externally by way of fund reinsurance. Where this is the case, the fair value of the underlying asset and liability is equal to the unit value obligation.

13 Subordinated liabilities and other borrowings

	As at 30 June 2023	As at 31 December 2022
	£m	£m
Subordinated liabilities	**3,692**	3,729
Operational borrowings	**77**	50
Borrowings attributable to With-Profits Fund	**4,030**	3,758
Total subordinated liabilities and other borrowings	**7,799**	7,537

13.1 Subordinated liabilities

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

	As at 30 June 2023		For the year ended 31 December 2022	
	Principal amount	**Carrying amount**	Principal amount	Carrying amount
		£m		£m
5.625% Sterling fixed rate due on 20 October 2051	**£750m**	**835**	£750m	839
6.25% Sterling fixed rate due 20 October 2068	**£500m**	**603**	£500m	604
6.5% US Dollar fixed rate due on 20 October 2048	**$500m**	**439**	$500m	466
6.34% Sterling fixed rate due on 19 December 2063	**£700m**	**843**	£700m	845
5.56% Sterling fixed rate due on 20 July 2055	**£600m**	**670**	£600m	672
3.875% Sterling fixed rate due on 20 July 2049	**£300m**	**302**	£300m	303
Total subordinated liabilities		**3,692**		3,729

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

A description of the key features of each of the Group's subordinated notes as at 30 June 2023 is as follows:

	5.625% Sterling fixed rate	6.25% Sterling fixed rate	6.50% US Dollar fixed rate	6.34% Sterling fixed rate	5.56% Sterling fixed rate	3.875% Sterling fixed rate
Principal amount	£750m	£500m	$500m	£700m	£600m	£300m
Issue date [i]	3 October 2018	3 October 2018	3 October 2018	16 December 2013 (amended 10 June 2019)	9 June 2015 (amended 10 June 2019)	10 July 2019
Maturity date	20 October 2051	20 October 2068	20 October 2048	19 December 2063	20 July 2055	20 July 2049
Callable at par at the option of the Company from	20 October 2031 (and each semi-annual interest payment date	20 October 2048 (and each semi-annual interest payment date	20 October 2028 (and each semi-annual interest payment date	19 December 2043 (and each semi-annual interest payment date	20 July 2035 (and each semi-annual interest payment date thereafter)	20 July 2024, 20 July 2029 (and each semi-annual interest payment
Solvency II own funds treatment	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2

[i] The subordinated notes were issued by Prudential plc rather than by the Company.

As at 30 June 2023, the principal amount of all subordinated liabilities is expected to be settled after more than 12 months and accrued interest of £42m (31 December 2022: £43m) 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		For the year ended 31 December
	2023	2022	2022
	£m	£m	£m
At 1 January	**3,729**	3,707	3,706
Amortisation	**(14)**	(14)	(28)
Foreign exchange movements	**(23)**	48	51
At end of period	**3,692**	3,741	3,729

There were no repayments of principal on these loans during the year. The amortisation of premium on the loans based on an effective interest rate and the foreign exchange movement on the translation of the subordinated liabilities denominated in US dollar are both non-cash items.

14 Fair value methodology

The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9 and are updated throughout this fair value methodology note. See Note 1.3.1 for further information.

14.1 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 loans and 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.

14.2 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.

14.3 Level 3 assets and liabilities

14.3.1 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 and loans were valued using matrix pricing, which is based on assessing the credit quality of the underlying borrower and allocating an internal credit rating which is unobservable. The internal credit rating implicitly incorporates environmental, social and governance (ESG) considerations through the analysts views of the industry and issuer. Under matrix pricing, these debt securities are priced by taking the credit spreads on comparable quoted public debt securities and applying these to the equivalent debt securities, factoring in a specified liquidity premium. The selection of comparable quoted public debt securities used to determine the credit spread is based on a credit spread matrix that takes into account the internal credit rating, maturity and currency of the debt security.

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

The investment properties of the Group are externally valued by professionally qualified external valuers using the RICS valuation standards. The Group's investment properties are predominantly valued using an income capitalisation technique. This technique calculates the value through the yield and rental value depending on factors such as the lease length, building quality, covenants and location. Typically these variables used are compared to recent transactions with similar features to those being valued.

The valuation of investment property inherently captures the impact of climate change if it were located in an area subject to climate change events. The key inputs of yield and rental value are proxies for a range of factors which will include climate change. The trend is towards greener buildings achieving better rents and yields than comparable buildings, all other factors being equal.

As the comparisons are not with properties that are virtually identical to the Group's investment properties, adjustments are made by the valuers where appropriate to the variables used.

The way that climate-related factors may influence key inputs for level 3 instruments can be nuanced and complex to identify. The inclusion of other climate-related factors into fair value is expected to evolve over the coming years as valuation tool sets progress to allow more accurate measurement of climate impact.

14.3.2 Analysis of internally valued level 3 financial instruments

Level 3 financial assets, net of financial liabilities, which were internally valued as at 30 June 2023 were £8,795m (31 December 2022: £8,630m), representing 6.8% of the total fair-valued financial assets net of financial liabilities (31 December 2022: 6.7%).

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 £7,339m as at 30 June 2023 (31 December 2022: £7,083m), of which £5,497m (31 December 2022: £5,885m) 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 £315m as at 30 June 2023 (31 December 2022: £497m) were valued internally using a discounted cash flow model. The most significant inputs to the valuation are the forecast cash flows of the underlying business, 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 £872m as at 30 June 2023 (31 December 2022: £934m) and a corresponding liability of £242m (31 December 2022: £246m), which were valued internally using discounted cash flow models. The inputs that are most significant to the valuation of these loans are the 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 £1,718m as at 30 June 2023 (31 December 2022: £1,688m), for the third-party interest in consolidated funds in respect of the consolidated investment funds, which are non-recourse to the Group. These liabilities were valued by reference to the underlying assets.

14.3.3 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.

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

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

	As at 30 June 2023			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
With-profits:				
Investment property	—	—	14,525	14,525
Equity securities and pooled investment funds	40,050	1,448	13,595	55,093
Loans	—	569	1,441	2,010
Debt securities	12,103	31,200	4,180	47,483
Derivative assets	96	2,690	1	2,787
Total with-profits	52,249	35,907	33,742	121,898
Unit-linked:				
Investment property	—	—	433	433
Equity securities and pooled investment funds	10,514	540	39	11,093
Debt securities	1,687	2,655	14	4,356
Derivative assets	1	7	—	8
Total unit-linked	12,202	3,202	486	15,890
Annuity and other long-term business:				
Investment property	—	—	848	848
Equity securities and pooled investment funds	256	—	2	258
Loans	—	—	1,267	1,267
Debt securities	2,230	5,439	4,098	11,767
Derivative assets	—	205	24	229
Total annuity and other long-term business	2,486	5,644	6,239	14,369
Other:				
Equity securities and pooled investment funds	187	—	63	250
Debt securities	699	406	7	1,112
Derivative assets	—	144	—	144
Total other	886	550	70	1,506
Group:				
Investment property	—	—	15,806	15,806
Equity securities and pooled investment funds	51,007	1,988	13,699	66,694
Loans	—	569	2,708	3,277
Debt securities	16,719	39,700	8,299	64,718
Derivative assets	97	3,046	25	3,168
Total assets at fair value	67,823	45,303	40,537	153,663

	Restated As at 31 December 2022			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
With-profits:				
Investment property	—	—	15,132	15,132
Equity securities and pooled investment funds	40,155	5,322	13,087	58,564
Loans	—	507	1,366	1,873
Debt securities	13,685	26,380	4,725	44,790
Derivative assets	52	2,350	1	2,403
Total with-profits	53,892	34,559	34,311	122,762
Unit-linked:				
Investment property	—	—	497	497
Equity securities and pooled investment funds	10,788	515	33	11,336
Debt securities	1,378	3,069	19	4,466
Derivative assets	5	2	—	7
Total unit-linked	12,171	3,586	549	16,306
Annuity and other long-term business:				
Investment property	—	—	876	876
Equity securities and pooled investment funds	5	—	2	7
Loans	—	—	1,361	1,361
Debt securities	1,617	6,616	4,166	12,399
Derivative assets	—	265	25	290
Total annuity and other long-term business	1,622	6,881	6,430	14,933
Other:				
Equity securities and pooled investment funds	162	—	58	220
Debt securities	686	440	40	1,166
Derivative assets	—	150	—	150
Total other	848	590	98	1,536
Group:				
Investment property	—	—	16,505	16,505
Equity securities and pooled investment funds	51,110	5,837	13,180	70,127
Loans	—	507	2,727	3,234
Debt securities	17,366	36,505	8,950	62,821
Derivative assets	57	2,767	26	2,850
Total assets at fair value	68,533	45,616	41,388	155,537

14.5 Fair value hierarchy for liabilities measured at fair value in the 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 2023			
	Level 1	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Investment contract liabilities without discretionary participation features	**—**	**12,015**	**—**	**12,015**
Third party interest in consolidated funds	**5,963**	**1,304**	**1,718**	**8,985**
Derivative liabilities	**41**	**3,963**	**17**	**4,021**
Accruals, deferred income and other liabilities	**—**	**—**	**242**	**242**
Total liabilities at fair value	**6,004**	**17,282**	**1,977**	**25,263**

	Restated As at 31 December 2022			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Investment contract liabilities without discretionary participation features	—	11,937	—	11,937
Third party interest in consolidated funds	7,372	1,329	1,688	10,389
Derivative liabilities	95	4,081	9	4,185
Accruals, deferred income and other liabilities	—	—	246	246
Total liabilities at fair value	7,467	17,347	1,943	26,757

14.6 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 2023 Financial Assets and Liabilities - Transfers between levels				
	Equity securities and pooled investments	**Loans**	**Debt securities**	**Derivatives**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
From level 1 to level 2	**33**	**—**	**3,511**	**—**	**3,544**
From level 1 to level 3[i]	**37**	**—**	**—**	**—**	**37**
From level 2 to level 1	**7**	**—**	**3,783**	**—**	**3,790**
From level 2 to level 3[i]	**632**	**—**	**195**	**—**	**827**
From level 3 to level 1	**—**	**—**	**—**	**—**	**—**
From level 3 to level 2	**—**	**22**	**390**	**—**	**412**

[i] During the period additional information has been identified in relation to a number of collective investment holdings with the value of £658m now reflected within level 3.

	Restated For the year ended 31 December 2022 Financial Assets and Liabilities - Transfers between levels				
	Equity securities and pooled investments	Loans	Debt securities	Derivatives	Total
	£m	£m	£m	£m	£m
From level 1 to level 2[i]	7	—	14,099	—	14,106
From level 1 to level 3	1	—	4	—	5
From level 2 to level 1	17	—	220	—	237
From level 2 to level 3	—	2	582	—	584
From level 3 to level 1	9	—	—	—	9
From level 3 to level 2	137	42	555	—	734

[i] Movements arising from refinements made to the Group's levelling policy during the year ended 31 December 2022.

14.7 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 2023										
	At 1 Jan	Total gains/(losses) in income statement	Foreign exchange	Purchases and other	Sales and other	Transfer to held for sale	Settled	Issued	Transfers into level 3	Transfers out of level 3	At 30 June
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Level 3 assets:											
Investment property	16,505	(574)	(448)	440	(92)	(25)	—	—	—	—	15,806
Equity securities and pooled investment funds	13,180	(459)	(87)	1,245	(696)	(153)	—	—	669	—	13,699
Loans	2,727	(79)	(10)	275	(183)	—	—	—	—	(22)	2,708
Debt securities	8,950	(259)	(20)	336	(443)	(70)	—	—	195	(390)	8,299
Derivative assets	26	(1)	—	—	—	—	—	—	—	—	25
Total level 3 assets	**41,388**	**(1,372)**	**(565)**	**2,296**	**(1,414)**	**(248)**	**—**	**—**	**864**	**(412)**	**40,537**
Level 3 liabilities:											
Third-party interest in consolidated funds	1,688	(65)	(8)	—	—	—	(23)	126	—	—	1,718
Other liabilities	246	1	—	—	—	—	(5)	—	—	—	242
Derivative Liabilities	9	8	—	—	—	—	—	—	—	—	17
Total level 3 liabilities	**1,943**	**(56)**	**(8)**	**—**	**—**	**—**	**(28)**	**126**	**—**	**—**	**1,977**

	Restated For the year ended 31 December 2022										
	At 1 Jan	Total gains/(losses) in income statement	Foreign exchange	Purchasesan d other[i]	Sales and other[ii]	Transfer to held for sale	Settled[iii]	Issued	Transfers into level 3	Transfers out of level 3	At 31 December
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Level 3 assets:											
Investment property	19,698	(1,477)	204	2,699	(4,643)	24	—	—	—	—	16,505
Equity securities and pooled investment funds	10,968	419	128	3,683	(1,873)	—	—	—	1	(146)	13,180
Loans	5,227	(901)	4	579	(786)	—	(1,356)	—	2	(42)	2,727
Debt securities	12,370	(3,401)	8	760	(818)	—	—	—	586	(555)	8,950
Derivative assets	58	(31)	—	2	(3)	—	—	—	—	—	26
Total level 3 assets	48,321	(5,391)	344	7,723	(8,123)	24	(1,356)	—	589	(743)	41,388
Level 3 liabilities:											
Third party interest in consolidated funds	1,241	(22)	16	—	—	—	(89)	542	—	—	1,688
Borrowings and subordinated liabilities	1,159	—	—	—	—	—	(1,159)	—	—	—	—
Other liabilities	403	(148)	—	—	—	—	(9)	—	—	—	246
Derivative liabilities	4	—	—	5	—	—	—	—	—	—	9
Total level 3 liabilities	2,807	(170)	16	5	—	—	(1,257)	542	—	—	1,943

[i] Included within purchases and other of £3,683m for Equity securities and pooled investment funds for the year ended 31 December 2022 is £1,216m associated with the deconsolidation of the M&G European Property Fund in the period.

[ii] Included within sales and other of £4,643m for Investment property for the year ended 31 December 2022 is £3,955m associated with the deconsolidation of the M&G European Property Fund in the period.

[iii] Included within settled for Loans and Borrowings and subordinated liabilities for the year ended 31 December 2022 is the impact from the deconsolidation of the buy-to-let mortgages held by a securitisation vehicle as a result of the change in control during the period.

14.8 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 2023 £m	Restated 2022 £m	For the year ended 31 December Restated 2022 £m
Investment property	**(575)**	703	(1,538)
Equity Securities & pooled investment funds	**(301)**	486	452
Loans	**(80)**	(431)	(899)
Debt securities	**(303)**	(2,291)	(3,350)
Third party interest in consolidated funds	**(65)**	35	(9)
Derivatives	**6**	—	—
Other financial liabilities	**1**	(88)	(148)
Total	**(1,317)**	(1,586)	(5,492)

14.9 Sensitivity of the fair value of level 3 instruments to changes in significant inputs

14.9.1 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	30 June 2023	31 December 2022	30 June 2023	31 December 2022
Investment property	Industrial	UK	**£11**	£9	**6.40%**	6.31%
		Asia/Pacific	**$117**	$96	**5.56%**	6.31%
	Office	UK	**£39**	£39	**6.86%**	6.18%
		Asia/Pacific	**$423**	$442	**5.41%**	5.48%
		North America	**$48**	$45	**6.50%**	5.75%
	Residential	UK	**£39**	£37	**4.07%**	3.96%
		Europe	**€322**	€330	**4.06%**	3.62%
		Asia/Pacific	**$237**	$258	**4.56%**	5.32%
	Retail	UK	**£18**	£27	**7.79%**	6.51%
		Asia/Pacific[ii]	**$744**	$755	**7.08%**	6.92%
	Other	UK	**£52**	£38	**5.26%**	5.77%
		Europe	**€112**	€110	**6.45%**	6.45%
		Asia/Pacific	**$192**	$195	**8.50%**	8.50%

[i] The average estimated rental value for the UK and North America is quoted per square foot, whilst the average estimated rental value for Europe and Asia/Pacific is quoted per square metre in line with local practice.

[ii] The 31 December 2022 average estimated rental value for Retail - Asia/Pacific has been restated following a review of the assets included within the calculation of the average.

Other assets:

	Unobservable input	30 June 2023	31 December 2022
Retail income strips	Discount rate	**2.14% to 6.86%**	1.06% to 5.00%
Equity release mortgages	Illiquidity premium	**1.82%**	2.07%
	Total portfolio property value	**c. £3.1bn**	c. £3.4bn
	Assumed property growth rate	**2.65%**	2.65%
	Property rental yield	**2.00%**	2.00%
Other commercial loans	Credit risk premium:		
	AAA to A	**0.50% to 1.65%**	0.60% to 1.81%
	BBB to BB	**1.39% to 4.97%**	1.45% to 5.86%
Private placement loans	Credit risk premium:		
	AAA to A	**0.50% to 1.65%**	0.60% to 1.81%
	BBB to BB	**1.39% to 4.97%**	1.45% to 5.86%
Infrastructure fund investments	Discount rate	**7.75% to 12%**	7.75% to 12%

14.10 Sensitivity of the fair value of level 3 instruments to changes in significant inputs

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.

As at 30 June 2023

	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]
Investment property							
Property in use	14,841	1,276	Income capitalisation	Equivalent yield	Decrease by 50bps	1,606	103
					Increase by 50bps	(1,346)	(85)
				Estimated rental value	Decrease by 10%	(1,272)	(65)
					Increase by 10%	1,296	66
Property under development	965	5		Development cost	Increase by 10%	97	—
					Decrease by 10%	(97)	—
Loans:							
Equity release mortgages[i]	872	872	Discounted cash flow[ii]	Illiquidity premium	Increase by 50bps	(64)	(48)
					Decrease by 50bps	70	52
				Current property value	Increase by 10%	47	35
					Decrease by 10%	(56)	(42)
				Assumed annual property growth rate	Increase by 100bps	132	98
					Decrease by 100bps	(181)	(135)
				Assumed annual property rental yield	Increase by 100bps	(81)	(60)
					Decrease by 100bps	79	59
Other mortgage and retail loans	618	—	Broker quotes[iii]	Broker quotes	Increase by 10%	62	—
					Decrease by 10%	(62)	—
Other commercial loans	1,218	395	Broker quotes[iii]	Broker quotes	Increase by 10%	122	29
					Decrease by 10%	(122)	(29)
Equity securities and pooled investment funds[iv]	13,596	104	Net asset statements	Net asset value	Increase by 10%	1,360	5
					Decrease by 10%	(1,360)	(5)
Infrastructure fund investments	316	—	Discounted cash flow[iv]	Discount rate	Increase by 10%	(60)	—
					Decrease by 10%	70	—
Debt securities[iv]							
Private placement loans	5,283	3,071	Discounted cash flow[v]	Discount rate	Increase by 40bps	(220)	(104)
					Decrease by 40bps	258	123
Retail income strips	213	178	Discounted cash flow[v]	Discount rate	Increase by 50bps	(14)	(9)
					Decrease by 50bps	16	10
Unquoted corporate bonds	2,590	870	Broker quotes, enterprise valuation, estimated recovery	Broker quotes	Increase by 10%	259	63
					Decrease by 10%	(259)	(63)
Derivative assets	25	24	Discounted cash flow[v]	Discount rate	Increase by 50bps	(1)	(1)
					Decrease by 50bps	1	1
Total level 3	40,537	6,795					

[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 £103m (31 December 2022: £213m) of equity securities and pooled investment funds and £213m (31 December 2022: £284m) of debt securities. These investments are valued in accordance with the International Private Equity and Venture Association valuation guidelines (latest edition December 2022). Valuations are also benchmarked against comparable infrastructure fund transactions. The discount rate is made up of cash flows from dividends due in respect of the equity investments and principal and interest from loan notes in respect of debt investments.

[v] The discount rate is made up of a risk-free rate and a credit spread. The risk-free rate is taken from an appropriate gilt of comparable duration and the spread is taken from a basket of comparable securities.

[vi] Of the £6,795m (31 December 2022: £7,077m) of level 3 assets held in shareholder-backed funds, £486m (31 December 2022: £549m) is held by unit-linked business. These assets are included in the analysis presented however, as the investment risk is borne by the unit-linked policyholders, there is no impact on IFRS profit after tax and shareholder's equity.

Restated As at 31 December 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]
Investment property							
Property in use	15,371	1,368	Income capitalisation	Equivalent yield	Decrease by 50bps	1,715	125
					Increase by 50bps	(1,419)	(102)
				Estimated rental value	Decrease by 10%	(1,260)	(69)
					Increase by 10%	1,316	70
Property under development	1,134	5		Development cost	Increase by 10%	113	—
					Decrease by 10%	(113)	—
Loans							
Equity release mortgages[i]	934	934	Discounted cash flow[ii]	Illiquidity premium	Increase by 50bps	(67)	(83)
					Decrease by 50bps	73	90
				Current property value	Increase by 10%	44	54
					Decrease by 10%	(53)	(65)
				Assumed annual property growth rate	Increase by 100bps	127	157
					Decrease by 100bps	(177)	(219)
				Assumed annual property rental yield	Increase by 100bps	(81)	(100)
					Decrease by 100bps	77	96
Other mortgage and retail loans	680	—	Broker quotes[iii]	Broker quotes	Increase by 10%	68	—
					Decrease by 10%	(68)	—
Other commercial loans	1,113	427	Broker quotes[iii]	Broker quotes	Increase by 10%	111	42
					Decrease by 10%	(111)	(42)
Equity securities and pooled investment funds[iv]	12,967	93	Net asset statements	Net asset value	Increase by 10%	1,297	7
					Decrease by 10%	(1,297)	(7)
Infrastructure fund investments	497	—	Discounted cash flow[iv]	Discount rate	Increase by 10%	(75)	—
					Decrease by 10%	88	—
Debt securities[iv]							
Private placement loans	5,649	3,225	Discounted cash flow[v]	Discount rate	Increase by 40bps	(278)	(223)
					Decrease by 40bps	268	184
Retail income strips	236	199	Discounted cash flow[v]	Discount rate	Increase by 50bps	(15)	(16)
					Decrease by 50bps	17	18
Unquoted corporate bonds	2,781	800	Broker quotes, enterprise valuation, estimated recovery	Broker quotes	Increase by 10%	278	97
					Decrease by 10%	(278)	(97)
Derivative assets	26	26	Discounted cash flow[v]	Discount rate	Increase by 50bps	(1)	(1)
					Decrease by 50bps	1	1
Total level 3	41,388	7,077					

14.11 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[i] and liabilities that are carried at amortised cost, where the carrying value approximates the fair value, are excluded from the analysis below:

As at 30 June 2023	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m	Total carrying value £m
Liabilities:					
Subordinated liabilities and other borrowings	—	**6,334**	**249**	**6,583**	**7,799**

[i]As of period end, the only financial assets not held at fair value are deposits and elements of other debtors. For these the carrying value approximates their fair value.

	Restated As at 31 December 2022 Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m	Total carrying value £m
Liabilities:					
Subordinated liabilities and other borrowings	—	6,416	6	6,422	7,537

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.

15 Contingencies and related obligations

15.1 Litigation, tax and regulatory matters

In addition to the matters set out in Note 7.2 regarding the portfolio dividend tax litigation, the Group is involved in various litigation and regulatory issues. While the outcome of such litigation and regulatory issues cannot be predicted with certainty, the Directors believe that their ultimate outcome will not have a material adverse effect on the Group's financial condition, results of operations, or cash flows.

15.2 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.

The Group has also received guarantees in respect of subleasing arrangements, entered into in the normal course of business.

On acquisition of a controlling interest in MGSA, M&G Group Limited provided a guarantee in respect of an existing loan facility between Thesele, the seller of MGSA, and Nedbank, a third party bank amounting to ZAR 220m. The guarantee is secured on 7% of the shares that Thesele retains in MGSA.

On acquisition of 49.9% holding in My Continuum Financial Limited (MCFL) Limited, the holding company Continuum (Financial Services) LLP (CFSL) and My Continuum Wealth (MCW), M&G Regulated Entity Holding Company (M&G REH) provided a guarantee in respect of the obligations under the Sale and Purchase agreement up to a maximum value of £33m.

M&G REH is guarantor for the obligations of M&G Corporate Services Limited to make payments under the Scottish Amicable Staff Pension Scheme.

The Group has also provided other guarantees and commitments to third parties entered into in the normal course of business, but the Group does not consider that these would result in a significant unprovisioned loss.

15.3 Support for the With-Profits Fund by shareholders

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

There are a number of additional arrangements between the shareholder and the With-Profits Fund as follows:

The With-Profits Fund contributed to the costs of establishing the Polish branch of PAC, and receives repayment through income from charges levied on the business. There is an obligation on the shareholders to ensure that the With-Profits Fund will be repaid in full with interest, and an amount is recognised for the estimated cost to the shareholder of any shortfall at the end of the term of the agreement. The policyholders share of the impact is included in the insurance contract liabilities for the with-profits fund, with changes in value recognised in finance income or expenses from insurance contracts issued in the consolidated income statement.

Part of the acquisition costs incurred in the early years of M&G Wealth Advice Limited (formerly Prudential Financial Planning Ltd) were funded by the With-Profits Fund. In return, M&G Wealth Advice Limited is required to deliver cost savings to the With-Profits Fund. In the event of closure of M&G Wealth Advice or, the cost savings not being delivered and M&G Wealth Advice stops writing new business, the shareholder will reimburse the With-Profits Fund for any remaining shortfall. The time period for repayment is not defined.

Transformation costs associated with with-profits new business will be recovered in the pricing of future new business (subject to a shareholder underpin whereby the shareholder will compensate the With-Profits Fund if any of these costs are not fully recovered at the end of the term of the agreement).

PAC has undertaken a project to rationalise fund structures (The Target Investment Model programme) achieved by combining existing, smaller funds with the main With-Profits asset share fund in a fund umbrella structure, and is expected to yield various benefits for the business over time. If expected benefits do not materialise to the With-Profits Fund, the shareholder is committed to compensate the fund for any implementation costs borne which were not fully recouped. The assessment period for the underpin arrangement is 5 years, running to the end of 2025.

PAC has priced new with-profits business on a basis that is expected to be financially self-supporting or, where this has not been the case, the shareholder is required to cover the cost (known as the New Business Supportability Test, 'NBST'). The policyholders share of the impact is included in the insurance contract liabilities for the with-profits fund, with changes in value recognised in finance income or expenses from insurance contracts issued the consolidated income statement.

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

15.3.1 Pension mis-selling review

The Pensions mis-selling review covers clients who were sold personal pensions between 29 April 1988 and 30 June 1994, and who were advised to transfer out, not join, or opt out of their employer's Defined Benefit Pension Scheme. Currently a provision amounting to £182m as at 30 June 2023 (31 December 2022: £226m) is being held in relation to this within insurance contract liabilities. During the initial review some clients were issued with guarantees that redress will be calculated on retirement or transfer of their policies. The provision continues to cover these clients.

Whilst PAC believed it met the requirements of the FSA (the UK insurance regulator at that time) to issue offers of redress to all impacted clients by 30 June 2002, there is a population of clients who, whilst an attempt was made at the time to invite them to participate in the review, may not have received their invitation. These clients have been re-engaged, to ensure they have the opportunity to take part in the review. The provision also covers this population.

The key assumptions underlying the provisions are:

- average cost of redress per client; and
- proportion of provision (reserve rate) held for soft close cases (where all reasonable steps have been taken to contact the client but the client has not engaged with the review).

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

Assumption	Change in assumption	As at 30 June 2023 £m	As at 31 December 2022 £m
Average cost of redress	Increase/decrease by 10%	**+/-10**	+/-10
Reserve rate for soft closed cases	Increase/decrease by 10%	**+/-31**	+/-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.

15.3.2 With-profits options and guarantees

Certain policies within the With-Profits Fund give potentially valuable guarantees to policyholders, or options to change policy benefits which can be exercised at the policyholders' discretion. These options and guarantees are valued as part of the insurance liabilities. Please refer to note 11.1.1 for further details on these options and guarantees.

16 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 2022.

There have been no related party transactions in the six months to 30 June 2023 which have had a material effect on the results or financial position of the Group.

17 Post balance sheet events

There have been no significant events after the reporting period.

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). The Group also uses a number of alternative performance measures (APM), which are most commonly derived from the financial statements prepared in accordance with the IFRS financial reporting framework or the Solvency II requirements, but are not defined under IFRS or Solvency II. The APMs are used to complement and not to substitute the disclosures prepared in accordance with IFRS and Solvency II, and provide additional information on the long-term performance of the Group. A list of the APMs used by the Group along with their definitions and how they can be reconciled to the nearest IFRS or Solvency II measure, where applicable, is provided in the table below.

All information included in this section does not form part of the independent 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 GAAP measures and is useful as it allows a deeper understanding of the performance over time. It is therefore key to decision-making and the internal performance management of our operating segments. Certain adjustments that are considered to be non-recurring or strategic, or due to short-term movements not reflective of longer-term performance are made to the IFRS result before tax to determine adjusted operating profit before tax. Adjustments are in respect of short-term fluctuations in investment returns, mismatches arising on the application of IFRS 17, costs associated with fundamental Group-wide restructuring and transformation, profits or losses arising on corporate transactions, impairment and amortisation in respect of acquired intangible assets, and, where relevant, profit/(loss) from discontinued operations. The adjusted operating profit methodology is described in Note 3.2, along with a reconciliation of
Net client flows (excluding Heritage)	APM, KPM	Net client flows represent gross inflows less gross outflows and provides useful insight into the growth of the business. Gross inflows are new funds from clients. Gross outflows are money withdrawn by clients during the period. This measure does not include the expected net outflows in our Heritage business, which is closed to new clients, as it runs-off. Net client flows includes flows on assets held on the Group's consolidated statement of financial position for our retail clients, and external client flows on assets belonging to wholesale and institutional clients outside of the Group which are not included in the Group's consolidated statement of financial position and as a result, this measure is not directly reconcilable to the financial statements.
Assets under management and administration (AUMA)	APM, KPM	Closing AUMA represents the total market value of all assets managed, administered or advised on behalf of clients at the end of each financial period and is a key indicator of the scale of the business. Assets managed by the Group include those managed on behalf of our institutional and wholesale clients. Assets administered by the Group include assets which we provide investment management services for, in addition to assets we administer where the client has elected to invest in a third-party investment manager. Assets under advice are advisory portfolios where clients receive investment recommendations such as Strategic Asset Allocation & model portfolios but retain discretion over executing the advice. AUMA includes assets recognised in the Group's consolidated statement of financial position together with certain assets administered by the Group belonging to external clients outside of the Group which are therefore not included within the Group's statement of financial position and, as a result, this measure is not directly reconcilable to the financial statements.

Key performance measure	Type	Definition
Shareholder Solvency II coverage ratio	APM, KPM	Management focuses on a shareholder view of the Solvency II coverage ratio, which is considered to provide a more useful reflection of the capital strength of the Group. The shareholder view includes future with-profits shareholder transfers, but excludes the shareholders' share of the ring-fenced with-profits estate. The regulatory Solvency II capital position considers the Group's overall own funds and SCR. The shareholder Solvency II coverage ratio is the ratio of own funds to SCR, excluding the contribution to own funds and SCR from the Group's ring-fenced With-Profits Fund. Own Funds assume transitional measures on technical provisions which have been recalculated using management's estimate of the impact of operating and market conditions at the valuation date. Both the shareholder view and the regulatory view reflect eligible Own Funds, in line with the thresholds set by the regulator that set out how much capital of each tier can be used to demonstrate solvency.
Underlying capital generation	APM	For insurance entities and their underlying subsidiaries, underlying capital generation includes the expected Solvency II surplus capital generated from in-force business and the impact of writing new life insurance business. For non-insurance entities, underlying capital generation is equal to adjusted operating profit before tax, with certain adjustments made in respect of items that do not reflect the underlying result. It also includes other items such as head office expenses and debt interest costs that contribute to the underlying capital position of the business.
Operating capital generation	APM, KPM	Operating capital generation is the total capital generation before tax, adjusted to exclude market movements relative to those expected under long-term assumptions and to remove other non-operating items, including shareholder restructuring and other costs. Management use this as an indicator on the longer-term components of the movements in the Group's surplus capital as it is less affected by short-term market volatility and non-recurring items as total capital generation.
Total capital generation	APM, KPM	Total capital generation measures the change in surplus capital during the period, before dividends and capital movements. Management consider it to be integral to the running and monitoring of the business, our decisions on capital allocation and investment, and ultimately our dividend policy. Surplus capital is the amount by which eligible own funds exceed SCR under Solvency II. Total capital generation is the total change in Solvency II surplus capital before dividends and capital movements.

Adjusted operating profit before tax

(i) Reconciliation of adjusted operating profit before tax by segment to IFRS profit before tax

	For the six months ended 30 June		For the year ended 31 December
	2023	Restated[i] 2022	Restated[i] 2022
	£m	£m	£m
Asset Management	**118**	124	264
Retail and Savings	**374**	294	618
Corporate Centre	**(102)**	(120)	(257)
Total segmented adjusted operating profit before tax	**390**	298	625
Short-term fluctuations in investment returns	**(177)**	(1,614)	(2,858)
Mismatches arising on application of IFRS 17	**(40)**	(50)	(244)
Amortisation of intangible assets acquired in business combinations	**(6)**	(3)	(35)
Restructuring and other costs	**(74)**	(64)	(147)
IFRS profit/(loss) before tax and non-controlling interests attributable to equity holders	**93**	(1,433)	(2,659)
IFRS profit attributable to non-controlling interests	**8**	8	19
IFRS profit/(loss) before tax attributable to equity holders	**101**	(1,425)	(2,640)

[i] The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.3.1 for further information.

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

	For the six months ended 30 June		For the year ended 31 December
	2023	Restated[i] 2022	Restated[i] 2022
	£m	£m	£m
Core Asset Management	**94**	117	218
Performance fees (including carried interest) and investment return	**24**	7	46
Asset Management	**118**	124	264
Wealth	**91**	93	158
– *With-profits*	**119**	103	190
– *Platform and advice*	**(19)**	(8)	(23)
– *Other*	**(9)**	(2)	(9)
Heritage	**279**	201	441
– *With-profits*	**129**	99	200
– *Shareholder annuities and other*	**150**	102	241
Other Retail and Savings	**4**	—	19
Retail and Savings	**374**	294	618
Corporate Centre	**(102)**	(120)	(257)
Adjusted operating profit before tax	**390**	298	625

[i] The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.3.1 for further information.

Adjusted operating profit before tax arising from the Asset Management segment is further analysed in the table below:

	For the six months ended 30 June		For the year ended 31 December
	2023	2022	2022
	£m	£m	£m
Fee-based revenue	**507**	503	1,051
Asset Management operating expenses	**(394)**	(367)	(763)
Investment return	**13**	(4)	(5)
Adjusted operating profit attributable to non-controlling interests	**(8)**	(8)	(19)
Adjusted operating profit before tax	**118**	124	264

Adjusted operating profit before tax arising from with-profits business is further analysed in the table below:

	For the six months ended 30 June				For the year ended 31 December	
	2023		Restated[i] 2022		Restated[i] 2022	
	Wealth	Heritage	Wealth	Heritage	Wealth	Heritage
	£m	£m	£m	£m	£m	£m
CSM release[ii]	**101**	**111**	79	89	154	186
Expected return on excess assets	**21**	**17**	10	9	21	19
Other	**(3)**	**1**	14	1	15	(5)
With-profits	**119**	**129**	103	99	190	200

[i] The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.3.1 for further information.

[ii] The CSM release is included above on an expected basis, calculated as the CSM at start of the period updated to reflect long-term expected investment returns multiplied by the expected amortisation factor for the period.

Adjusted operating profit before tax arising from shareholder annuities is further analysed in the table below:

Breakdown of contribution from annuity margin	For the six months ended 30 June 2023 £m	Restated[i] 2022 £m	For the year ended 31 December Restated[i] 2022 £m
Expected return on excess assets	**101**	57	113
CSM release	**47**	42	89
Risk adjustment unwind	**9**	11	24
Asset trading and portfolio management actions	**12**	6	41
Experience variances	**(16)**	(10)	—
Other provisions and reserves	**(2)**	—	(28)
Shareholder annuities	**151**	106	239

[i] The comparative amounts have been restated for the first time adoption of IFRS 17 and IFRS 9. See Note 1.3.1 for further information.

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

(i) Detailed AUMA and net client flows

	As at 1 January 2023 £bn	Gross inflows £bn	Gross outflows £bn	Net client flows £bn	Market/ Other movements £bn	As at 30 June 2023 £bn
Institutional Asset Management	**99.2**	**7.4**	**(8.8)**	**(1.4)**	**(3.8)**	**94.0**
Wholesale Asset Management	**53.9**	**9.2**	**(7.9)**	**1.3**	**(2.9)**	**52.3**
Other	**1.1**	**—**	**—**	**—**	**—**	**1.1**
Total Asset Management[i]	**154.2**	**16.6**	**(16.7)**	**(0.1)**	**(6.7)**	**147.4**
Wealth	**83.4**	**4.6**	**(4.0)**	**0.6**	**0.6**	**84.6**
– *of which PruFund*	**52.3**	**3.3**	**(2.4)**	**0.9**	**0.3**	**53.5**
Heritage	**94.1**	**0.3**	**(3.5)**	**(3.2)**	**(0.6)**	**90.3**
– *of which shareholder annuities*	**15.4**	**—**	**(0.5)**	**(0.5)**	**(0.3)**	**14.6**
– *of which traditional with-profits*	**67.5**	**0.1**	**(2.4)**	**(2.3)**	**0.7**	**65.9**
Other Retail and Savings	**8.9**	**0.6**	**(0.4)**	**0.2**	**—**	**9.1**
– *of which PruFund*	**6.0**	**0.5**	**(0.3)**	**0.2**	**0.1**	**6.3**
Total Retail and Savings	**186.4**	**5.5**	**(7.9)**	**(2.4)**	**—**	**184.0**
Corporate assets	**1.4**	**—**	**—**	**—**	**—**	**1.4**
Group Total	**342.0**	**22.1**	**(24.6)**	**(2.5)**	**(6.7)**	**332.8**

[i] Included in total AUMA of £332.8 billion (year ended 31 December 2022: £342 billion) is £13.2 billion (year ended 31 December 2022: £12.7 billion) of assets under advice.

	As 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[i]	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	370.0	19.1	(21.0)	(1.9)	(19.2)	348.9

	As at 1 January 2022	Gross inflows	Gross outflows	Net client flows	Market / Other movements	At 31 Dec 2022
	£bn	£bn	£bn	£bn	£bn	£bn
Institutional Asset Management	103.1	13.1	(13.8)	(0.7)	(3.2)	99.2
Wholesale Asset Management	52.7	16.0	(15.5)	0.5	0.7	53.9
Other	0.9	—	—	—	0.2	1.1
Total Asset Management[i]	156.7	29.1	(29.3)	(0.2)	(2.3)	154.2
Wealth	84.2	8.0	(7.8)	0.2	(1.0)	83.4
– *of which PruFund*	52.4	5.4	(4.9)	0.5	(0.6)	52.3
Heritage	117.8	0.2	(6.2)	(6.0)	(17.7)	94.1
– *of which shareholder annuities*	22.2	—	(1.1)	(1.1)	(5.7)	15.4
– *of which traditional with-profits*	81.4	0.2	(5.1)	(4.9)	(9.0)	67.5
Other Retail and Savings	9.1	0.9	(0.6)	0.3	(0.5)	8.9
– *of which PruFund*	6.0	0.7	(0.5)	0.2	(0.2)	6.0
Total Retail and Savings	211.1	9.1	(14.6)	(5.5)	(19.2)	186.4
Corporate assets	2.2	—	—	—	(0.8)	1.4
Group Total	370.0	38.2	(43.9)	(5.7)	(22.3)	342.0

(ii) AUMA by asset class

	As at 30 June 2023									
	On-balance sheet AUMA					External AUMA				Total
	With-Profits	Unit linked	Shareholder backed annuities & other long-term business	Corporate assets	Total on-balance sheet	Wealth	Wholesale	Institutional	Total external	Total AUMA
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Investment property	**8.9**	**—**	**0.8**	**—**	**9.7**	**—**	**0.1**	**15.4**	**15.5**	**25.2**
Reinsurance contract assets	**—**	**—**	**1.0**	**—**	**1.0**	**—**	**—**	**—**	**—**	**1.0**
Equity securities and pooled investment funds	**69.7**	**9.5**	**—**	**0.2**	**79.4**	**4.4**	**24.0**	**9.7**	**38.1**	**117.5**
Loans	**1.0**	**—**	**1.3**	**—**	**2.3**	**—**	**—**	**9.5**	**9.5**	**11.8**
Debt securities	**34.4**	**1.9**	**11.8**	**1.1**	**49.2**	**1.1**	**26.9**	**56.6**	**84.6**	**133.8**
– *of which Corporate*	**23.4**	**1.8**	**8.4**	**1.1**	**34.7**	**1.1**	**17.4**	**35.0**	**53.5**	**88.2**
– *of which Government*	**9.9**	**—**	**2.9**	**—**	**12.8**	**—**	**8.7**	**7.8**	**16.5**	**29.3**
– *of which ABS*	**1.1**	**0.1**	**0.5**	**—**	**1.7**	**—**	**0.8**	**13.8**	**14.6**	**16.3**
Derivatives[i]	**0.7**	**—**	**(1.6)**	**(0.1)**	**(1.0)**	**—**	**0.1**	**(0.4)**	**(0.3)**	**(1.3)**
Deposits[ii]	**11.4**	**0.8**	**1.3**	**—**	**13.5**	**—**	**—**	**—**	**—**	**13.5**
Cash and Cash equivalents	**1.4**	**0.5**	**0.6**	**0.9**	**3.4**	**0.1**	**1.2**	**3.1**	**4.4**	**7.8**
Other	**1.2**	**0.1**	**0.1**	**0.4**	**1.8**	**—**	**—**	**—**	**—**	**1.8**
Other AUMA	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**21.7**
Total[iii]	**128.7**	**12.8**	**15.3**	**2.5**	**159.3**	**5.6**	**52.3**	**93.9**	**151.8**	**332.8**

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

ii Deposits are shown net of unsettled reverse repos.

[iii] Included in total AUMA of £332.8 billion (year ended 31 December 2022: £342.0 billion) is £13.2 billion (year ended 31 December 2022: £12.7 billion) of assets under advice.

	As at 31 December 2022									
	On-balance sheet AUMA					External AUMA				Total
	With-Profits	Unit linked	Shareholder backed annuities & other long-term business	Corporate assets	Total on-balance sheet	Wealth	Wholesale	Institutional	Total external	Total AUMA
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Investment property	9.1	—	0.9	—	10.0	—	0.8	16.0	16.8	26.8
Reinsurance contract assets	—	—	1.0	—	1.0	—	—	—	—	1.0
Equity securities and pooled investment funds	69.3	9.7	—	0.2	79.2	3.6	28.6	18.1	50.3	129.5
Loans	1.1	—	1.4	—	2.5	—	—	9.4	9.4	11.9
Debt securities	32.3	2.5	12.4	1.2	48.4	2.1	22.7	51.6	76.4	124.8
– *of which Corporate*	23.5	1.8	8.7	1.2	35.2	2.1	14.4	34.8	51.3	86.5
– *of which Government*	7.5	0.6	3.1	—	11.2	—	7.1	8.7	15.8	27.0
– *of which ABS*	1.3	0.1	0.6	—	2.0	—	1.2	8.1	9.3	11.3
Derivatives[i]	0.1	—	(1.5)	(0.1)	(1.5)	—	0.3	0.3	0.6	(0.9)
Deposits[ii]	14.5	1.2	1.4	—	17.1	—	—	—	—	17.1
Cash and Cash equivalents	1.5	0.3	0.6	0.7	3.1	—	1.5	3.8	5.3	8.4
Other	1.0	0.2	0.2	0.4	1.8	—	—	—	—	1.8
Other AUMA	—	—	—	—	—	—	—	—	—	21.6
Total[iii]	128.9	13.9	16.4	2.4	161.6	5.7	53.9	99.2	158.8	342.0

(iii) AUMA by geography

	As at 30 June		As at 31 December
	2023	2022	2022
	£bn	£bn	£bn
UK	**255.9**	274.9	264.1
Rest of Europe	**53.6**	50.5	52.7
Asia-Pacific	**10.7**	10.4	11.1
Middle East and Africa	**10.6**	11.5	12.7
Americas	**2.0**	1.6	1.4
Total AUMA[i]	**332.8**	348.9	342.0

[i] Included in total AUMA of £332.8 billion (year ended 31 December 2022: £342.0 billion) is £13.2 billion (year ended 31 December 2022: £12.7 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. Available own funds reflect all capital available to the Group and eligible own funds are net of restrictions applied in line with the thresholds set by the regulator that limit the amount of each tier of capital that can be used to demonstrate solvency. The SCR is calculated using the Group's Internal Model, which calculates the SCR as the 99.5th percentile (or 1-in-200) worst outcome over the coming year, out of 100,000 equally likely scenarios, allowing for the dependency between the risks the business is exposed to.

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

	As at 30 June 2023 £bn	As at 30 June Restated 2022 £bn	As at 31 December Restated 2022 £bn
IFRS shareholders' equity	**4.0**	5.7	4.3
Deduct goodwill and intangible assets	**(1.5)**	(1.6)	(1.6)
Net impact of policyholder liabilities and reinsurance assets valued on Solvency II basis	**12.5**	13.0	12.8
Impact of introducing Solvency II risk margin (net of transitional measures)	**(1.0)**	(0.9)	(1.0)
Impact of measuring assets and liabilities in line with Solvency II principles	**0.8**	0.5	0.9
Recognise own shares	**0.1**	0.1	0.1
Other	**—**	(0.2)	—
Solvency II excess of assets over liabilities	**14.9**	16.6	15.5
Subordinated debt capital	**2.9**	3.3	3.0
Ring-fenced fund restrictions	**(6.6)**	(6.9)	(6.6)
Deduct own shares	**(0.1)**	(0.1)	(0.1)
Deduct foreseeable dividends	**—**	(0.4)	—
Eligible Own Funds restriction	**(0.3)**	—	—
Solvency II eligible own funds	**10.8**	12.5	11.8

The key items in the reconciliation are explained below:

Goodwill and intangible assets: these assets are not recognised under Solvency II as they are not readily available to meet emerging losses.

Policyholder liability and reinsurance asset valuation differences: there are significant differences in the valuation of technical provisions between IFRS 17 and Solvency II. One of the key drivers of the increase in equity moving from IFRS 17 to Solvency II is the requirement to hold a CSM and risk adjustment under IFRS 17; these are removed under Solvency II. In addition, IFRS 17 captures the shareholder share of surplus assets on the with-profits fund in shareholder equity whereas 100% of with-profits surplus assets are captured in Solvency II excess of assets over liabilities, however this is subsequently restricted by the ring-fenced fund restrictions. This increase in equity is partially offset by differences in the liability discount rate; the IFRS17 discount rate includes an illiquidity premium which is slightly higher than the Solvency II matching adjustment on annuity business, resulting in slightly higher annuity liabilities under IFRS 17.

Solvency II risk margin (net of transitional measures): the risk margin is a significant component of technical provisions required to be held under Solvency II. These additional requirements are partially mitigated by transitional measures which allow the impact to be gradually introduced over a period of 16 years from the introduction of Solvency II on 1 January 2016.

Subordinated debt capital: subordinated debt is treated as a liability in the IFRS financial statements and in determining the excess of assets over liabilities in the Solvency II balance sheet. However, for Solvency II own funds, the debt can be treated as capital.

Ring-fenced fund restrictions: any excess of the own funds over the solvency capital requirements from the With-Profits Fund is restricted as these amounts are not available to meet losses elsewhere in the Group.

There are limits, prescribed by the regulator, on the amount of different types of Own Funds that can be used to demonstrate solvency. As at 30 June 2023, the sum of capital classed as Tier 2 and Tier 3 exceeds 50% of the regulatory Group Solvency Capital Requirement by £280 million. While this capital remains available to the Group, as it is above this regulatory threshold Own Funds must be restricted by this amount to determine eligible Own Funds.

Composition of own funds

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

	As at 30 June 2023 £bn	As at 30 June 2022 £bn	As at 31 December 2022 £bn
Tier 1 (unrestricted)	**7.6**	8.9	8.2
Tier 2	**2.9**	3.3	3.0
Tier 3	**0.6**	0.3	0.6
Eligible Own Funds restriction	**(0.3)**	—	—
Total Solvency II eligible own funds	**10.8**	12.5	11.8

The Group's Tier 2 capital consists of subordinated debt instruments. The terms of these instruments allow them to be treated as capital for the purposes of Solvency II. The instruments were originally issued by Prudential plc, and subsequently substituted to the parent company, as permitted under the terms and conditions of each applicable instrument, prior to demerger. The details of the Group's subordinated liabilities are shown in Note 13. The Solvency II value of the debt differs to the IFRS carrying value due to a different basis of measurement on the respective balance sheets.

The Group's Tier 3 capital of £0.6bn (31 December 2022: £0.6 billion) relates to deferred tax asset balances.

As stated above, the eligible Own Funds restriction reflects the fact that the sum of Tier 2 and Tier 3 capital exceeds the threshold set by the regulator for the purpose of demonstrating solvency, although the capital above this threshold remains available to the Group.

Estimated shareholder view of the Solvency II capital position

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

The estimated shareholder Solvency II capital position for the Group as at 30 June 2023 and 31 December 2022 is shown below:

	As at 30 June 2023 £bn	As at 30 June 2022 £bn	As at 31 December 2022 £bn
Shareholder Solvency II eligible own funds	**8.8**	9.7	9.3
Shareholder Solvency II SCR	**(4.4)**	(4.5)	(4.7)
Shareholder Solvency II surplus	**4.4**	5.2	4.6
Shareholder Solvency II coverage ratio[i]	**199%**	214%	199%

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

The Group's shareholder Solvency II capital position excludes the contribution to own funds and SCR from the ring-fenced With-Profits Fund. Further information on the ring-fenced With-Profits Fund's capital position is provided in the 'Estimated With-Profits Fund view of the Solvency II capital position' section.

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

- A Solvency Capital Requirement which has been calculated using the Group's internal model.
- Transitional measures, which are presented after assuming a recalculation at the valuation date, using management's estimate of the impact of operating and market conditions.
- A matching adjustment for non-profit annuities, based on approval from the Prudential Regulation Authority.
- M&G Group Limited and other undertakings carrying out financial activities consolidated under local sectoral or notional sectoral capital requirements.

Breakdown of the shareholder Solvency II SCR by risk type

	As at 30 June 2023 £bn	As at 30 June 2022 £bn	As at 31 December 2022 £bn
Equity	**1.6**	1.6	1.7
Property	**0.8**	0.9	0.9
Interest rate	**0.6**	0.2	0.6
Credit	**1.6**	2.1	1.6
Currency	**1.1**	1.0	1.1
Longevity	**0.8**	1.1	0.9
Lapse	**0.5**	0.3	0.5
Operational & expense	**1.2**	1.4	1.3
Sectoral[i]	**0.6**	0.6	0.7
Total undiversified	**8.8**	9.2	9.3
Diversification, deferred tax, and other	**(4.4)**	(4.7)	(4.6)
Shareholder SCR	**4.4**	4.5	4.7

[i] Includes entities included within the Group's Solvency II capital position on a sectoral or notional sectoral basis, the most material of which is M&G Group Limited.

Sensitivity analysis of the shareholder Solvency II coverage ratio

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

	As at 30 June 2023		As at 30 June 2022		As at 31 December 2022	
	Surplus £bn	**Shareholder coverage ratio %**	Surplus £bn	Shareholder coverage ratio %	Surplus £bn	Shareholder coverage ratio %
Base (as reported)	**4.4**	**199%**	5.2	214%	4.6	199%
20% instantaneous fall in equity markets	**3.8**	**186%**	4.5	202%	0.4	187%
20% instantaneous fall in property markets	**3.9**	**189%**	4.7	204%	4.2	190%
50bp reduction in interest rates[i]	**4.2**	**192%**	5.1	206%	4.4	191%
100bp widening in credit spreads	**4.1**	**196%**	5.0	213%	4.3	196%
20% credit asset downgrade[ii]	**4.2**	**194%**	4.9	208%	4.4	194%

[i] Future residential house price growth rates are assumed to move in line with interest rates; there may be economic reasons why this is not borne out in practice.

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

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

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

The estimated Solvency II capital position for the Group under the With-Profits Fund view as at 30 June 2023, 30 June 2022 and 31 December 2022 is shown below:

	As at 30 June 2023 £bn	As at 30 June 2022 £bn	As at 31 December 2022 £bn
With-Profits Fund Solvency II Own funds	**8.6**	9.7	9.1
With-Profits Fund Solvency II SCR	**(2.0)**	(2.8)	(2.5)
With-Profits Fund Solvency II surplus	**6.6**	6.9	6.6
With-Profits Fund Solvency II coverage ratio[i]	**429%**	347%	362%

[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 2023 £bn	As at 30 June 2022 £bn	As at 31 December 2022 £bn
Solvency II Eligible Own funds	**10.8**	12.5	11.8
Solvency Capital Requirement	**(6.4)**	(7.3)	(7.2)
Solvency II surplus	**4.4**	5.2	4.6
Solvency II coverage ratio[i]	**168%**	171%	164%

[i] Solvency II coverage ratio has been calculated using unrounded figures. On a regulatory approved transitional measures on technical provisions basis, the surplus is £4.7bn (30 June 2022: £5.6bn, 31 December 2022: £4.8bn) and the solvency coverage ratio is 174% (30 June 2022: 177%, 31 December 2022: 168%).

The results include transitional measures, which are presented assuming a recalculation as at the valuation date, using management's estimate of the impact of operating and market conditions. As at 30 June 2023 and 31 December 2022, the recalculated transitional measures do not align to the latest approved regulatory position and therefore the estimated Solvency II capital position differs from the position disclosed in the formal regulatory Quantitative Reporting Templates of the same date and, for the figures as at 31 December 2022, the 2022 Group Solvency and Financial Condition Report.

Capital generation

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

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

Total capital generation is the total change in Solvency II surplus capital before dividends and capital movements and capital generated from discontinued operations. As set out in the overview of the Solvency II capital position, as at 30 June 2023 eligible Own Funds has been restricted by £280m as the sum of tier 2 and tier 3 capital is above the threshold set by the regulator, although the capital remains available to the Group.

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

i. Underlying capital generation, which includes: the underlying expected surplus capital from the in-force life insurance business; the change in surplus capital as a result of writing new life insurance business; the adjusted operating profit before tax and associated capital movements from Asset Management; and other items including head office expenses and debt interest costs.

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

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

The expected surplus capital from the in-force life insurance business is calculated on the assumption of real-world investment returns, which are determined by reference to the risk-free rate plus a risk premium based on the mix of assets held for the relevant business. For with-profits business, the assumed average return was 4.0% for the six months ended 30 June 2023, 4.1% for the six months ended 30 June 2022 and 4.1% for the year ended 31 December

2022. For annuity business, the assumed average return on assets backing capital was 6.6% for the six months ended 30 June 2023, 2.2% for the six months ended 30 June 2022 and 2.2% for the year ended 31 December 2022.

The Group's capital generation results in respect of the six months ended 30 June 2023 and 30 June 2022, and year ended 31 December 2022 are shown below, alongside a reconciliation of the total movement in the Group's Solvency II surplus. The reconciliation is presented showing the impact on the shareholder Solvency II own funds and SCR, which excludes the contribution to own funds and SCR from the Group's ring-fenced With-Profits Fund. The shareholder Solvency II capital position, and how this reconciles to the regulatory capital position, is described in detail in the previous section of this supplementary information.

	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
	2023	2022	2022	**2023**	2022	2022	**2023**	2022	2022	**2023**	2022	2022
	£m	£m	£m	**£m**	£m	£m	**£m**	£m	£m	**£m**	£m	£m
Underlying capital generation	**119**	142	246	**344**	370	641	**(111)**	(126)	(259)	**352**	386	628
Other operating capital generation	**(5)**	(6)	(33)	**163**	58	194	**(5)**	(5)	32	**153**	47	193
Operating capital generation	**114**	136	213	**507**	428	835	**(116)**	(131)	(227)	**505**	433	821
Market movements										**(141)**	(482)	(1,225)
Restructuring & other										**(61)**	(71)	(166)
Tax										**50**	144	173
Eligible Own Funds restriction										**(280)**	—	—
Total capital generation										**73**	24	(397)

		For the six months ended 30 June 2023			For the six months ended 30 June 2022			For the year ended 31 December 2022		
		Own Funds[i]	SCR[i]	Surplus	Own Funds[i]	SCR[i]	Surplus	Own Funds[i]	SCR[i]	Surplus
		£m	£m	£m	£m	£m	£m	£m	£m	£m
Underlying capital generation										
Asset Management	Asset management	**101**	**18**	**119**	129	13	142	268	(22)	246
	Asset management underlying capital generation	**101**	**18**	**119**	129	13	142	268	(22)	246
Retail and Savings	Wealth	**128**	**(53)**	**75**	124	(36)	88	214	(59)	155
	– *of which with-profits*	**155**	**(53)**	**102**	127	(31)	96	233	(53)	180
	– *In-force*	**115**	**3**	**118**	95	11	106	187	29	216
	– *New business*	**40**	**(56)**	**(16)**	32	(42)	(10)	46	(82)	(36)
	– *of which platform & advice*	**(19)**	**2**	**(17)**	(5)	(4)	(9)	(21)	(4)	(25)
	– *of which other*	**(8)**	**(2)**	**(10)**	2	(1)	1	2	(2)	—
	Heritage	**233**	**36**	**269**	180	86	266	339	164	503
	– *of which with-profits*	**87**	**9**	**96**	70	30	100	138	54	192
	– *of which annuity and other*	**146**	**27**	**173**	110	56	166	201	110	311
	Other Retail and Savings	**28**	**(28)**	**—**	19	(3)	16	43	(60)	(17)
	Retail and Savings underlying capital generation	**389**	**(45)**	**344**	323	47	370	596	45	641
Corporate	Interest & Head Office cost	**(120)**	**9**	**(111)**	(124)	(2)	(126)	(267)	8	(259)
Underlying capital generation		**370**	**(18)**	**352**	328	58	386	597	31	628
Other operating capital generation		**40**	**113**	**153**	(29)	76	47	194	(1)	193
	– *of which Asset Management*	**—**	**(5)**	**(5)**	(6)	—	(6)	7	(40)	(33)
	– *of which Retail and Savings*	**47**	**116**	**163**	(15)	73	58	188	6	194
	– *of which Corporate centre*	**(7)**	**2**	**(5)**	(8)	3	(5)	(1)	33	32
Operating capital generation		**410**	**95**	**505**	299	134	433	791	30	821
	Market movements	**(233)**	**92**	**(141)**	(1,266)	784	(482)	(2,259)	1,034	(1,225)
	Restructuring & other	**(70)**	**9**	**(61)**	(90)	19	(71)	(173)	7	(166)
	Tax	**10**	**40**	**50**	369	(225)	144	652	(479)	173
	Eligible Own Funds Restriction	**(280)**	**—**	**(280)**	—	—	—	—	—	—
Total Capital Generation		**(163)**	**236**	**73**	(688)	712	24	(989)	592	(397)
Dividends and capital movements		**(298)**	**(1)**	**(299)**	(1,010)	(15)	(1,025)	(1,151)	(15)	(1,166)
Total (decrease) / increase in Solvency II surplus		**(461)**	**235**	**(226)**	(1,698)	697	(1,001)	(2,140)	577	(1,563)

[i] Own funds and SCR movements shown as per the shareholder Solvency II capital position, and do not include the own funds and SCR in respect of the ring-fenced With-Profits Fund.

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
	2023	2022	2022
	£m	£m	£m
Total Asset Management operating expenses	**394**	367	763
Adjustment for revaluations[i]	**(1)**	4	2
Total Asset Management adjusted costs	**393**	371	765
Total Asset Management fee based revenue	**507**	503	1,051
Less: performance fees and carried interest	**(11)**	(11)	(56)
Total Asset Management underlying fee-based revenue	**496**	492	995
Cost/Income ratio (%)	**79%**	75%	77%

[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		
	2023			2022			2022		
	Average AUMA[i]	**Revenue[ii]**	**Revenue margin[ii]**	Average AUMA[i]	Revenue[ii]	Revenue margin[ii]	Average AUMA[i]	Revenue[ii]	Revenue margin[ii]
	£bn	**£m**	**bps**	£bn	£m	bps	£bn	£m	Bps
Wholesale Asset Management	**54**	**155**	**58**	52	150	57	52	299	58
Institutional Asset Management	**97**	**189**	**39**	104	181	35	102	390	38
Internal	**152**	**152**	**20**	164	161	20	157	306	19
Total Asset Management	**303**	**496**	**33**	320	492	31	311	995	32

[i] Average AUMA represents the average total market value of all financial assets managed and administered on behalf of clients during the financial period. Average AUMA is calculated using a 13-point average of monthly closing AUMA for full-year periods 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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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 2023	AAA £m	AA+ to AA- £m	A+ to A- £m	BBB+ to BBB- £m	Below BBB- £m	Other £m	Total £m
Government Sovereign debt	4,283	9,598	1,574	1,924	1,155	222	18,756
With-profits	2,862	7,163	1,537	1,847	1,153	124	14,686
Unit-linked	99	1,114	15	48	—	98	1,374
Annuity and other long-term business	768	1,269	19	26	—	—	2,082
Other	554	52	3	3	2	—	614
Quasi-sovereign and Public sector debt	314	1,646	226	363	920	288	3,757
With-profits	252	874	152	360	920	229	2,787
Unit-linked	23	78	12	3	—	1	117
Annuity and other long-term business	39	694	62	—	—	58	853
Other	—	—	—	—	—	—	—
Corporate debt	1,307	2,977	10,127	13,268	3,143	8,397	39,219
With-profits	750	1,846	7,806	10,230	2,729	4,354	27,715
Unit-linked	82	162	755	1,412	317	49	2,777
Annuity and other long-term business	273	871	1,520	1,588	76	3,976	8,304
Other	202	98	46	38	21	18	423
Asset-backed securities	497	208	424	221	61	1,575	2,986
With-profits	313	146	203	128	48	1,457	2,295
Unit-linked	24	4	17	21	13	9	88
Annuity and other long-term business	85	58	204	72	—	109	528
Other	75	—	—	—	—	—	75
Structured notes	—	—	—	—	—	—	—
With-profits	—	—	—	—	—	—	—
Total debt securities	6,401	14,429	12,351	15,776	5,279	10,482	64,718
With-profits	4,177	10,029	9,698	12,565	4,850	6,164	47,483
Unit-linked	228	1,358	799	1,484	330	157	4,356
Annuity and other long-term business	1,165	2,892	1,805	1,686	76	4,143	11,767
Other	831	150	49	41	23	18	1,112

As at 31 December 2022	AAA £m	AA+ to AA- £m	A+ to A- £m	BBB+ to BBB- £m	Below BBB- £m	Other £m	Total £m
Government Sovereign debt	4,325	7,641	1,379	2,194	1,062	187	16,788
With-profits	3,382	4,633	1,297	2,106	1,058	187	12,663
Unit -linked	211	923	81	58	—	—	1,273
Annuity and other long-term business	671	1,497	—	26	—	—	2,194
Other	61	588	1	4	4	—	658
Quasi-sovereign and Public sector debt	329	1,800	328	175	21	305	2,958
With-profits	257	942	250	172	21	261	1,903
Unit-linked	34	83	15	3	—	2	137
Annuity and other long-term business	38	775	63	—	—	42	918
Other	—	—	—	—	—	—	—
Corporate debt	1,368	2,952	9,623	13,527	3,250	9,235	39,955
With-profits	760	1,812	7,251	10,333	2,695	5,032	27,883
Unit-linked	87	180	772	1,473	382	53	2,947
Annuity and other long-term business	326	870	1,542	1,687	148	4,150	8,723
Other	195	90	58	34	25	—	402
Asset-backed securities	629	239	444	251	44	1,513	3,120
With-profits	398	158	208	144	44	1,389	2,341
Unit-linked	30	21	18	31	—	9	109
Annuity and other long-term business	95	60	218	76	—	115	564
Other	106	—	—	—	—	—	106
Structured notes	—	—	—	—	—	—	—
With-profits	—	—	—	—	—	—	—
Total Debt Securities	6,651	12,632	11,774	16,147	4,377	11,240	62,821
With-profits	4,797	7,545	9,006	12,755	3,818	6,869	44,790
Unit-linked	362	1,207	886	1,565	382	64	4,466
Annuity and other long-term business	1,130	3,202	1,823	1,789	148	4,307	12,399
Other	362	678	59	38	29	—	1,166

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 2023	As at 31 December 2022
	£m	£m
AAA	**152**	43
AA+ to AA-	**1,502**	1,548
A+ to A-	**3,789**	3,844
BBB+ to BBB-	**1,936**	1,845
Below BBB-	**1,141**	786
Unrated	**1,961**	3,174
Total	**10,482**	11,240

In the table above, AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB ratings. Financial assets which fall outside this range are classified as below BBB- and are non-investment grade.

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

As at 30 June 2023	With-profits £m	Unit-linked £m	Annuity and other long-term business £m	Other £m	Total £m
Sovereign debt securities by country:					
United Kingdom	**3,845**	**1,096**	**1,180**	**554**	**6,675**
Germany	**724**	**13**	**199**	**—**	**936**
Other European countries	**1,236**	**47**	**551**	**—**	**1,834**
Total Europe	**5,805**	**1,156**	**1,930**	**554**	**9,445**
United States	**1,972**	**6**	**—**	**4**	**1,982**
South Africa	**931**	**98**	**—**	**—**	**1,029**
Indonesia	**756**	**9**	**—**	**—**	**765**
South Korea	**752**	**12**	**—**	**—**	**764**
Malaysia	**710**	**9**	**—**	**—**	**719**
Singapore	**581**	**7**	**—**	**—**	**588**
Other	**3,179**	**77**	**152**	**56**	**3,464**
Total	**14,686**	**1,374**	**2,082**	**614**	**18,756**

As at 31 December 2022	With-profits £m	Unit-linked £m	Annuity and other long-term business £m	Other £m	Total £m
Sovereign debt securities by country:					
United Kingdom	2,290	947	1,239	578	5,054
Germany	503	39	201	—	743
Other European countries	1,223	57	586	4	1,870
Total Europe	4,016	1,043	2,026	582	7,667
United States	1,990	6	—	23	2,019
South Africa	90	98	—	1	189
Indonesia	891	12	—	—	903
South Korea	760	12	—	—	772
Malaysia	566	8	—	—	574
Singapore	460	5	—	—	465
Other	3,890	89	168	52	4,199
Total	12,663	1,273	2,194	658	16,788

As at 30 June 2023 Other European Countries included £1,302m (year ended 31 December 2022: £1,403m) and Other included £1,181m (year ended 31 December 2022: £1,226m) of Supranational Government bonds.

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 2023 £m	As at 31 December Restated[i] 2022 £m
Financial	**2,684**	2,759
Government	**2,888**	3,098
Real Estate	**2,727**	2,860
– *of which residential*	**1,882**	1,845
– *of which commercial*	**845**	1,015
Utilities	**1,683**	1,794
Consumer	**396**	424
Industrial	**396**	424
Communications	**294**	313
Other	**699**	727
Total	**11,767**	12,399

[i] The sector information used has been amended to utilise that of the group issuing the debt rather than the individual entity as this provides a clearer view of the industry exposure.

Glossary

Term	Definition
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 85.
Alternative performance measure (APM)	Is a financial measure of historic or future financial performance, financial position or cash flows, other than a financial measure defined under IFRS or under Solvency II regulations.
Asset-backed 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	Represents total operating expenses, excluding revaluation of provisions for employee performance awards divided by total fee-based revenues, excluding performance fees.
Assets under management and administration (AUMA)	Represents the total market value of all financial assets managed, administered or advised on behalf of customers and clients.
Average fee margin	Is calculated from fee-based revenues earned in the period, excluding performance fees, divided by average AUMA for the period. It demonstrates the revenue margin that was earned on the assets we manage and administer.
Board	The Board of directors of the Company.
Bonuses	Bonuses refer to the non-guaranteed benefit added to participating life insurance policies and are the way in which policyholders receive their share of the profits of the policies. There are normally two types of bonus: – Regular bonus: expected to be added every year during the term of the policy. It is not guaranteed that a regular bonus will be added each year, but once it is added, it cannot be reversed, also known as annual or reversionary bonus; 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.
Fair value through profit or loss (FVTPL)	Is an IFRS measurement basis permitted for assets and liabilities managed on a fair value basis or which meet certain criteria. Gains or losses on assets or liabilities measured at FVTPL are recognised directly in the condensed consolidated income statement.

Term	Definition
Chief Operating Decision Maker	The Group Executive Committee.
Company/Parent Company	M&G plc, a public limited company incorporated in England and Wales with registered number 11444019 whose registered office is 10 Fenchurch Avenue, London EC3M 5AG, United Kingdom.
Contractual Service Margin (CSM)	Represents unearned profit on insurance contracts, recognised in profit or loss as the service is provided over the life of the contracts.
Demerger	The demerger from Prudential plc in October 2019.
Director	A Director of the Company.
Earnings per share (EPS)	Is a commonly used financial metric which can be used to measure the profitability and strength of a company over time. EPS is calculated by dividing profit after tax by the number of ordinary shares. Basic EPS uses the weighted average number of ordinary shares outstanding during the year. 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
Employee benefit trust (EBT)	Is a trust set up to enable its Trustees to purchase and hold shares to satisfy employee share-based incentive plan awards.
ESG	ESG stands for Environmental, Social, and Governance. ESG is a framework that helps stakeholders understand how an organisation is managing risks and opportunities related to environmental, social, and governance criteria.
Expected credit loss (ECL)	Expected credit loss (ECL) impairment loss being the present value of the difference between contractual cashflows due and expected to be received, based on the lifetime probability of default. It applies to all credit exposures not measured at fair value through profit or loss.
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

Financial Conduct Authority (FCA)

The body responsible for supervising the conduct of all financial services firms and for the prudential regulation of those financial services firms not supervised by the Prudential Regulation Authority (PRA), such as asset managers and independent financial advisers.

Group

The Company and its subsidiaries.

Group Executive Committee

Is composed of board officers and senior-level executive management. It is the Group's most senior executive decision-making forum.

International Financial Reporting Standards (IFRS)

Are accounting standards issued by the International Accounting Standards Board (IASB). The Group's 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.

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.

Leverage ratio

Is calculated as the nominal value of debt as a percentage of the shareholder view of the Group's Solvency II available own funds.

Long term incentive plan (LTIP)

The part of an executive's remuneration designed to incentivise long-term value for shareholders through an award of shares with vesting contingent on employment and the satisfaction of stretching performance conditions linked to the Group's strategy.

MandG Investments Southern Africa (Pty) Ltd (MGSA)

On 4 July 2021, M&G FA Limited, a wholly-owned subsidiary of M&G plc, acquired a controlling stake in Prudential Portfolio Managers (South Africa) (Pty) Ltd (PPMSA). We previously accounted for the investment as an associate using the equity method. As we now have a controlling interest, the acquisition has been accounted for using the acquisition accounting method. Rebranded as MandG Investments Southern Africa (MGSA).

Net client flows

Represent gross inflows less gross outflows. Gross inflows are new funds from clients. Gross outflows are money withdrawn by clients during the period.

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

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.

Own funds

Refers to the Solvency II measure of capital available to meet losses, and is based on the assets less liabilities of the Group, subject to certain restrictions and adjustments. Available Own Funds reflect all capital available to the Group. Eligible Own Funds are net of restrictions applied in line with the thresholds set by the regulator that limit the amount of each tier of capital that can be used to

Prudential Regulation Authority (PRA)

Is the body responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.

Prudential Assurance Company (PAC)

Is a private limited company incorporated in England and Wales with registered number 00015454 whose registered office is 10 Fenchurch Avenue, London, EC3M 5AG, United Kingdom.

PruFund

Our PruFund proposition provides our retail customers with access to smoothed savings contracts with a wide choice of investment profiles.

Scottish Amicable Insurance Fund (SAIF)

Was a ring-fenced sub-fund of the With-Profits Fund following the acquisition of the mutually owned Scottish Amicable Life Assurance Society in 1997. The fund 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.

Shareholder Solvency II coverage ratio

Is the ratio of eligible own funds to solvency capital requirement (SCR), excluding the contribution to own funds and SCR from the Group's ring-fenced With-Profits Fund.

SICAV

A SICAV (Société d'investissement à Capital Variable) is an open-ended investment fund offered by European financial companies, similar to the UK's unit trust. SICAVs are effectively share companies aimed at collectively investing the assets collected through the public offering of shares, whose value amounts to the net worth of capital account divided by their number.

Solvency capital requirement (SCR)

SCR represents the 99.5th percentile (or 1-in-200) worst outcome over the coming year, out of 100,000 equally likely scenarios, allowing for the dependency between the risks the business is exposed to. The SCR is calculated using our Solvency II Internal Model.

Solvency II

A regime for the prudential regulation of insurance companies that was introduced by the EU on 1 January 2016.

Solvency II surplus

Represents the eligible own funds held by the Group less the solvency capital requirement.

Total capital generation

Is the total change in Solvency II surplus capital, on an eligible Own Funds basis, before dividends and capital movements and capital generated from discontinued operations.

Transitional measures

Transitional measures on technical provisions are an adjustment to Solvency II technical provisions, to smooth the impact of the change in the regulatory regime on 1 January 2016. This decreases linearly over 16 years following the implementation of Solvency II, but may be recalculated in certain cases, subject to agreement with the PRA.

Unallocated surplus of the With-Profits Fund

Represented the excess of assets over policyholder liabilities that have yet to be appropriated between policyholders and shareholders. There is no Unallocated surplus of the With-Profits Fund under IFRS 17.

Unit-linked policy

A policy where the benefits are determined by the investment performance of the underlying assets in the unit-linked fund.

With-profits business

Contracts where the policyholders have a contractual right to receive, at the discretion of the company, additional benefits based on the profits of the fund, as a supplement to any guaranteed benefits.

With-Profits Fund

The Prudential Assurance Company Limited's fund where policyholders are entitled to a share of the profits of the fund. Normally, policyholders receive their share of the profits through bonuses. It is also known as a participating fund as policyholders have a participating interest in the With-Profits Fund and any declared bonuses.