M&G Investments

M&G Group
Pillar 3 Disclosures
As at 31 December 2021

Date of publication: 28/07/2022

Contents

1. Introduction and Scope

This document sets out the M&G Group ("M&GG") Pillar 3 disclosures on risk management and capital adequacy as at 31 December 2021. M&GG is regulated by the Financial Conduct Authority ("FCA"). As at 31 December 2021 it was subject to rules set out in the FCA's General Prudential Sourcebook ("GENPRU") and Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU"). This disclosure is prepared in accordance with the Capital Requirements Directive. The capital requirements framework consists of three Pillars:

- Pillar 1: Sets out minimum capital requirements;
- Pillar 2: Sets out the process for assessing capital adequacy in relation to a firm's actual risk profile and for determining whether additional capital is required to cover these risks. This is achieved through the Internal Capital Adequacy Assessment Process ("ICAAP") undertaken by M&GG and the Supervisory Review and Evaluation Process ("SREP") performed by the FCA; and
- Pillar 3: Requires public disclosure of a firm's risks, risk management and capital.

The Pillar 3 disclosures relate to M&GG, which is subject to supervision by the FCA on a consolidated basis in accordance with BIRPU 8.5.1. An overview of M&GG's main trading statutory entities and the material UK regulated entities included in the scope of the consolidation are shown in Figure 2.1.

The FCA has updated the prudential regime for investment firms now called the Investment Firms Prudential Regime. The new regime came into effect on 1 January 2022 and impacts M&GG and its subsidiaries. Future disclosures will be made in line with the updated regime.

Accounting consolidation

The basis of consolidation for statutory financial accounting under International Financial Reporting Standards ("IFRS") is described in the annual financial statements. It is based on the inclusion of all entities controlled by M&GG at 31 December each year.

Prudential consolidation

M&GG uses the same basis for its prudential and accounting consolidations with the exception of investments in funds which are consolidated for accounting purposes but are not included in the regulatory consolidation group as they do not meet the definition of financial institutions. Significant investments in associates and an insurance related entity investment are deducted as material holdings to calculate capital resources as detailed in Section 4.

Materiality

As per the BIPRU rules, an entity may omit one or more of the required disclosures if it believes that the information is immaterial. A disclosure is deemed to be material if the omission or misstatement of that information would be likely to change or influence the assessment or decision of a user relying on that information for the purposes of making economic decisions. Where a disclosure is immaterial, this has been noted.

Frequency

M&GG has an accounting reference date of 31 December and disclosures are published annually, aligned with the publication of the M&GG financial statements. However, disclosures may be published more frequently in light of any material changes.

Location and verification

These disclosures have been approved by the M&G Group Limited Board ("the Board"). These disclosures are not subject to audit and have been produced solely for the purposes of satisfying the Pillar 3 regulatory requirements. The disclosures are made available on the M&G plc corporate website.

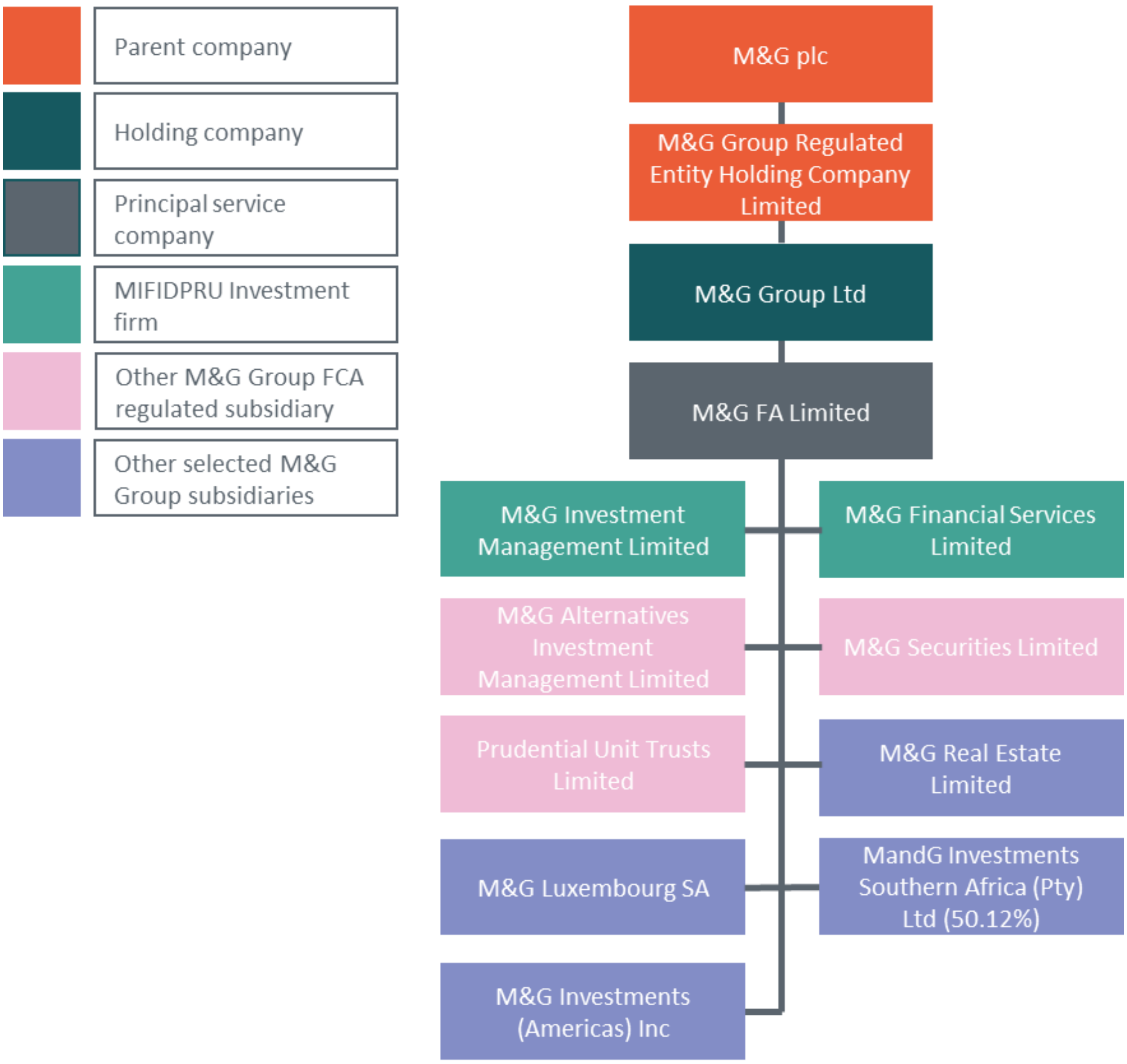
2. Business overview

Principal activity

M&GG is a material subsidiary of M&G plc. It is an international asset management firm, established in 1931, with decades of experience investing on behalf of individuals and institutions. M&GG's principal activity is to provide asset management services in equities, public and private fixed income, real estate and other asset classes for its retail, institutional and internal clients. Internal clients refer to other entities that are part of the M&G plc Group. At year end 2021 M&GG had £325bn AuMA including £169bn related to internal clients. M&GG manages funds and mandates and develops investment solutions that are relevant to its customers' needs by leveraging its expertise across different geographies, asset classes and investment strategies, with the aim of delivering value for clients through the generation of long-term capital growth and / or income. It offers a broad range of savings and investment solutions to retail customers and institutional clients. Retail customers have access to a family of UK-domiciled mutual funds, as well as a similar stable of Luxembourg funds for international customers. For its institutional clients M&GG provides investment propositions covering both private and public assets through a variety of formats, from pooled funds to segregated mandates.

Group structure

Figure 2.1: Simplified M&GG entity structure

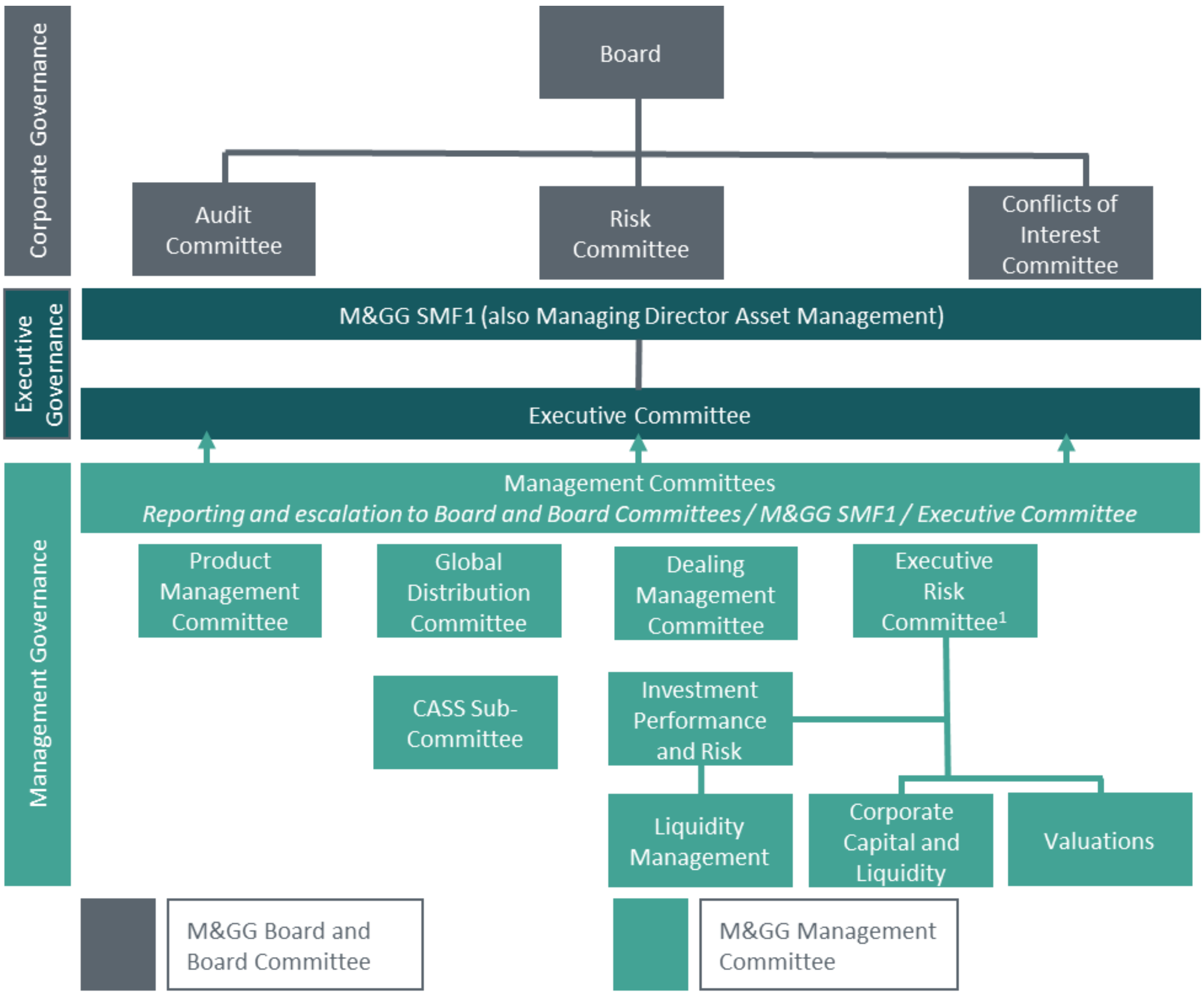


Governance structure

The M&GG Board provides independent oversight for M&GG and is authorised to exercise all the powers of M&GG within applicable legislation and the provisions of its articles of association, subject to the limits imposed, approvals required and policy set by M&G plc, including the Risk Management Framework. Oversight of the governance of M&GG is undertaken by the M&G plc Nomination Committee, a committee of the M&G plc Board. In addition, the M&G plc Audit Committee and Risk Committee (also committees of the M&G plc Board) are responsible for reviewing the activities of the respective M&GG Board Committees.

The Board delegates operational management of the business to the M&GG SMF 1 (who also holds the role of Managing Director of Asset Management), who is supported by a team of Executives forming the M&GG Executive Committee. An M&GG executive governance framework is in place to oversee all key M&GG activities and supports the M&GG Executive Committee and the M&GG Board and Board Committees. This is set out in Figure 2.2 below. The M&GG management committees are established by the relevant Group or M&GG executive to collectively approve or provide support or advice to the respective executive in line with their delegated authority.

Figure 2.2: Simplified M&GG committee structure at YE21



Note 1. The Executive Risk Committee has a direct escalation route to both the M&G plc Executive Risk Committee and the M&GG Board Risk Committee.

A summary of duties of the committees, as specified in Figure 2.2, are as follows:

- **Risk Committee –** assists the Board in discharging its responsibility for overseeing the effectiveness of risk and capital management for all financial and non-financial risks faced by the Company. It oversees compliance with the Group Risk Management Framework (RMF), related Group risk and compliance policies and Group Approved Limits;
- **Audit Committee –** assists the Board in discharging its responsibility for the integrity of the Company's financial statements, for the effectiveness of the Company's internal control and risk management systems and for monitoring the effectiveness and objectivity of the internal and external auditors;
- **Conflicts of Interest Committee –** assists the Board in discharging its responsibilities for embedding an appropriate culture and acting consistently with its duty to deliver fair outcomes to customers. It provides challenge and oversight of actual and potential conflicts of interest impacting M&GG (together with attendant mitigating controls), along with review and maintenance of the Conflicts of Interest Policy, Conflicts of Interest Register, Conflicts of Interest Risk Assessment and Conflicts of Interest Disclosure Statement;
- **Executive Committee –** exercises executive management responsibility for all of M&GG's activities which include: Investment Management (including investment activities undertaken by other M&GG companies operating under the regulatory licence of M&G Investment Management Limited (MAGIM)), Operations and IT support, Distribution and Marketing, Finance, HR, Risk, Compliance, and Legal and supports the Managing Director Asset Management in fulfilling all aspects of his role;
- **Executive Risk Committee (ERC) –** oversees risk management across M&GG, including application of the RMF to M&GG and review of the M&GG risk appetite statement, ICARA and related disclosures to the M&GG Risk Committee. The ERC has the following sub-committees:
    - **Corporate Capital and Liquidity Committee (CoCAL) –** which reviews and monitors material risk exposures that could impact the corporate capital or liquidity profile of M&GG and its subsidiary legal entities;
    - **Investment Performance and Risk Committee –** oversees investment performance and investment risk across M&GG ensuring it is managed within risk appetite. It has one subcommittee, the
    - **Liquidity Management Sub-Committee**, which oversees client portfolio liquidity management across M&GG.
    - **Valuations Committee –** oversees and provides independent challenge over all valuation activity across M&GG
- **CASS Sub-Committee –** oversees the holding of client money and client assets as defined by the FCA CASS rules across M&G plc (including M&GG). It is a sub-Committee of the M&G plc Finance Capital and Liquidity Committee;
- **Product Management Committee –** oversees and approves (or recommends for approval, as appropriate) product development and management activities across M&GG, ensuring that they are managed in line with risk appetite;
- **Global Distribution Committee –** oversees and approves (or recommends for approval, as appropriate) global distribution activities across M&GG ensuring that they are managed in line with risk appetite;

In addition to the above, the M&G plc Board Remuneration Committee is responsible for oversight of the Group-wide remuneration policy and applicable regulations, including M&GG and assists the Board in its remuneration responsibilities.

3. Risk management objectives and policies

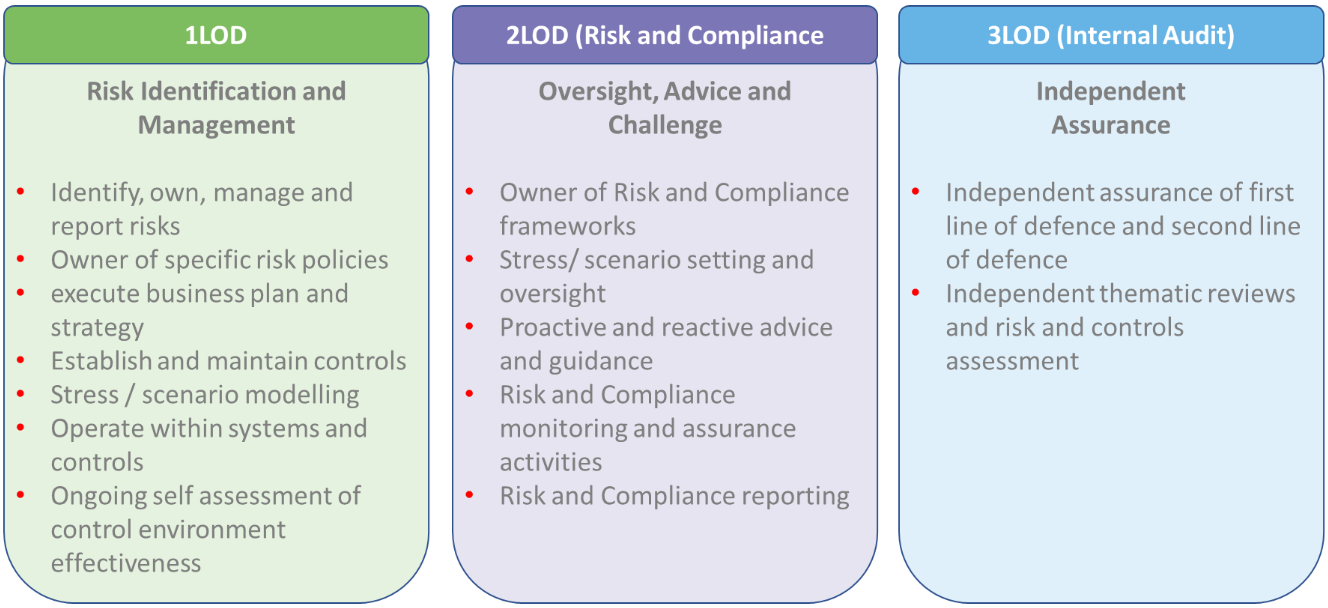
3.1. Risk management framework

As part of its business operations, M&GG takes on risks, where such risks are adequately rewarded, and can be appropriately quantified and managed to protect its reputation and to safeguard its ability to meet the requirements of customers, regulators and the shareholder.

The Board has responsibility for managing these risks for M&GG. To assist the Board in discharging its responsibilities, a comprehensive approach to identifying, measuring, managing, monitoring and reporting risks (the Risk Management Cycle) has been implemented, supported by an embedded risk culture and strong risk governance.

M&G plc has implemented a Group Governance Framework ("GGF"), which is applicable to all entities in the M&G plc Group, including M&GG. The GGF details the M&G plc group-wide approach to governance, risk management and internal controls. The Risk Management Framework ("RMF") component of the GGF defines the group-wide requirements for monitoring and managing risks based on a three lines of defence ("3LOD") model in line with Senior Manager and Certification Regime ("SMCR") accountabilities.

Figure 3.1: Three lines of defence model



The first line business areas identify and manage risks and are overseen by the second line Risk and Compliance function. The second line is structurally independent of the first line, providing risk oversight, advice and challenge. Third line Internal Audit is empowered by the Audit Committee to audit the design and effectiveness of internal controls, including the risk management system.

The RMF describes the approach, arrangements and standards for risk management that support M&GG's compliance with statutory and regulatory requirements.

The risks resulting from M&GG's activities and the potential harms to its customers, markets and the firm itself, as a result of its business strategy are understood and managed through the RMF and the risk taxonomy. The RMF is designed to manage risk within agreed appetite levels that are aligned to delivering the strategy for shareholders and customers. This is achieved through:

- describing the philosophy and approach to risk management and the principles for taking and managing risk;
- outlining the governance structure and apportionment of accountabilities;
- providing a common language and framework for managing all types of risk through a risk taxonomy which is important for consistency and understanding the overall risk exposure;
- providing a reference point when considering risks, by defining and describing the company's risk management principles, risk appetite, risk categorisation, risk policies, risk culture and risk management cycle;
- promoting a responsible risk culture across the whole business, supported by the recruitment and training of individuals to ensure the capabilities and behaviours needed to develop and control the business are in place; and
- outlining key processes for risk management and internal control that support compliance with relevant customer, statutory, regulatory and shareholder requirements.

3.2. Risk policies

The RMF is structured around a risk taxonomy which provides a single common language to describe risks with a clear hierarchy across the risk universe. It provides M&G plc-wide definitions and risk categories prescribed at two levels across the risk universe with an additional third level to the risk categorisation, where extra granularity is required. Risk policies set out specific requirements to be applied in the management of each risk category/type. Risk and compliance policies are in place for all material risk categories, as illustrated below.

The Policy Governance Framework (PGF) is a core component of the Group Governance Framework and supports the overall system of risk management and internal control. A key element of the PGF is the suite of Risk and Compliance policies that covers the key risk areas faced by the organisation and supports the RMF and the Integrated Controls Framework (enterprise-wide approach to controls) to facilitate effective risk management. These cover the level 1 risks and other key and material risks faced by the Group, and relevant regulatory and legislative requirements. The policies apply to all M&G plc business areas and entities (including M&GG and its subsidiaries) unless otherwise stated.

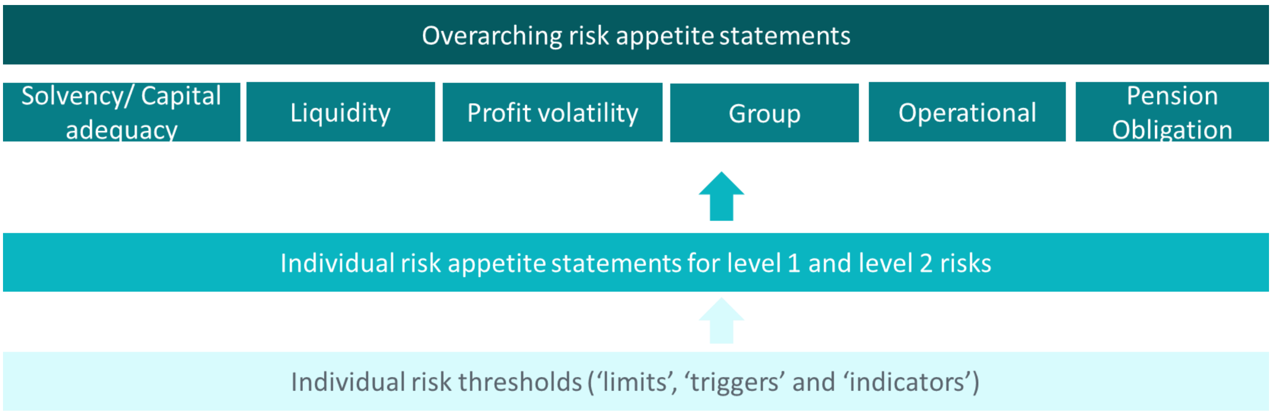
Figure 3.2: Risk and compliance policies relevant to M&GG

Risk Management Policy		
Risk Policies		Compliance Policies
Non-Financial Risk	Financial Risk	Conduct Risk
ESG Risk	Credit Risk	Conflicts of Interest
Information Technology Risk	Investment Risk	Financial Crime Risk
Operational Risk	Market Risk	Regulatory Compliance Risk
Social Media Risk	Treasury Liquidity Risk	Whistleblowing
Strategic Risk		Market Abuse
Tax Risk		US Political Contributions (Pay to Play)
Third Party Risk Management		
Model Governance	Solvency and Regulatory Reporting	
Internal Model Risk	ICARA	
Model & UDA Risk	Group Valuation	

3.3. Strategies and processes to manage risks

Risk appetite is the amount and type of risk M&GG is willing to accept in pursuit of its business objectives and is set by the M&GG Board. Risk appetite and tolerance to take on risk is specified through risk appetite statements and limits that are aligned to, and reviewed with respect to, business model and strategy. M&GG Risk Appetite Statements are set in the constraints of M&G plc Risk Appetite. The Risk Appetite Framework contains:

Figure 3.3: Risk Appetite Framework



M&GG manages its capital adequacy and profit volatility through aggregate risk appetite statements. These are supported by the management of individual risk types as set out below. These risk types are aligned to the level 1 and level 2 risk types set out in M&GG's risk taxonomy. M&GG's position against appetite is assessed during the annual business planning process and monitored and managed regularly throughout the year. Prescribed indicators are used to inform whether a risk may move out of appetite and are a core element of risk reporting to Board and Executive Risk Committees with appropriate management actions.

Credit and Counterparty risk

M&GG defines credit and counterparty risk as the risk of loss or adverse change in the financial situation of the business, or that of our customers and clients, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors in the form of default or other significant credit event (e.g. downgrade or spread widening).

M&GG has a low appetite for risk associated with its cash balances. M&GG has specific limits in place to restrict cash deposits with any one bank. The limits include assessment of the credit rating of the bank.

Market risk

Market risk is the risk of loss or adverse change in the financial situation of the business resulting, directly or indirectly, from fluctuations in the level or volatility of market prices of assets and liabilities.

M&GG's appetite is to restrict the balance sheet exposure to certain activities such as holding foreign exchange ("FX") positions as a result of overseas operations through the implementation of a robust limit framework.

Investment risk

Investment risk is the risk of financial or non-financial impact to the business, or financial impact to our customers and clients, resulting from a failure to set investment strategy and make investment decisions, or manage fund profiles to deliver medium/ long term investment performance in line with investment objectives, or operate funds with appropriate levels of liquidity.

M&GG has no appetite for levels of risk that are inconsistent with achieving fund objectives on a persistent basis. To measure this, M&GG has a robust and independent governance structure to oversee and monitor the drivers behind performance and risk.

Treasury liquidity risk

Treasury liquidity risk is the risk of loss for the business, or of adverse changes in the financial situation, resulting from M&GG's inability to generate sufficient cash resources to meet financial obligations (e.g. claims, creditors and planned dividends) as they fall due.

M&GG has a low appetite for corporate liquidity risk and aims to hold a specified minimum level of cash and manages this risk through application of a set of limits and triggers.

Conduct risk

M&GG defines conduct risk as the risk that acts or omissions of the firm, or individuals within the firm, deliver poor or unfair outcomes for customers and clients, employees, other stakeholders or affect market integrity.

M&GG has no appetite for inappropriate or poor conduct by the firm, or individuals within the firm that harms customers, markets, or other stakeholders including other employees.

Financial crime

M&GG defines financial crime risk as the risk of financial or non-financial impact resulting from a failure to have in place adequate systems and processes to protect M&G plc and its customers and clients from financial crime and comply with applicable legislation and regulations.

M&GG has no appetite for any material impacts arising from failure to implement, monitor and further develop appropriate controls to prevent financial crime.

Operational risk and resilience

Operational risk and resilience is the risk of financial or non-financial impact resulting from inadequate or failed internal or outsourced processes and controls, colleague errors, technology issues or from external events.

M&GG has low appetite for failings arising from an ineffective control environment and will proactively respond to mitigate material impacts or repeat errors through application of its Operational Risk Framework. While the controls should prevent material impacts, they should not excessively restrict business activities which ensure attainment of M&GG's strategy or business objectives.

Regulatory compliance

M&GG defines regulatory compliance risk as the risk of financial or non-financial impact resulting from a failure to meet regulatory requirements or a failure to adequately consider regulatory expectations, standards or principles.

M&GG has no appetite for failing to develop, implement and monitor appropriate controls to manage regulatory compliance risks.

Reputational risk

M&GG defines reputational risk as the risk that M&GG's activities, behaviours, and/or communications do not align to its purpose or meet stakeholders' expectations in ways which adversely impact trust and M&GG's reputation - potentially leading to adverse impacts to customer relationships, the loss of key personnel, adverse regulatory reaction and /or financial impacts.

Overall M&GG has no appetite for failing to consider and appropriately respond to reputational risk within its activities, behaviours and/or communication approaches.

Strategic risk

Strategic risk is the risk of loss for the business or failure to maximise opportunity resulting from ineffective, inefficient or inadequate senior management processes for the development and implementation of business strategy.

M&GG has no appetite for losses or material damage (including to corporate reputation) resulting from failure to appropriately follow the agreed processes for designing and executing strategic decisions.

Group risk

Group risk is the risk that the financial position M&GG may be adversely affected by its relationships (financial or non-financial) with other entities in the same group or by risks which may affect the financial position of the whole group, for example reputational contagion.

M&GG seeks synergies with M&G plc and other entities in the M&G plc Group through its business strategy, shared services model and the management of assets for internal clients. Group risk is managed through the risks outlined in this document.

Pension obligation

Pension obligation risk is the risk to M&GG caused by its contractual or other liabilities to or with respect to a pension scheme (whether established for its employees or those of a related company or otherwise). It also means the risk that the firm will make payments or other contribution to or with respect to a pension scheme because of a moral obligation or because the firm considers that it needs to do so for some other reason.

M&GG has low appetite to allow a Defined Benefit Pension scheme obligation to grow beyond a quantum that is unlikely to be resolved without explicit management actions.

3.4. Policies for hedging and mitigating risks

To protect the solvency of M&GG, the Board is reluctant to take market risk on to the balance sheet of the M&GG. Therefore, M&GG's appetite is to restrict the balance sheet exposure to a limited set of activities – such as seed investment and holding FX positions because of overseas operations. See Section 5.1 for more information. These activities are managed in line with M&GG's risk appetite statement, risk policies and standards.

With regards to foreign exchange, M&GG chooses to hedge FX risk as a prudent measure. Hedges are monitored within M&GG Finance and reported to the Corporate Capital and Liquidity Committee.

4. Capital resources

M&GG's capital resources are primarily constituted of share capital and retained earnings. Capital resources have been calculated in accordance with GENPRU 2.2. Profits are only included within capital resources once they have been verified by independent auditors. There is no current or foreseen material, practical or legal impediment to the prompt transfer of capital resources or repayment of liabilities among the parent undertaking and its subsidiaries.

The following prudential filters and regulatory deductions have been made in the calculation of capital resources:

- defined benefit pension scheme asset;
- material holdings; and
- intangibles

Significant investments in associates and an insurance related entity investment are deducted as material holdings.

Table 4.1: Entities deducted in calculating capital resources.

Entity	Treatment in accounting consolidation
M&G Investments Life South Africa (RF) Ltd	Investment in associate
Furnival Insurance Company PCC Limited	Financial assets designated at fair value through profit or loss

Table 4.2: M&GG capital resources as at 31 December 2021.

£ million	31 December 2021
(A) Share capital	88
(B) Retained earnings	830
(C) Other reserves	10
Prudential filters:	
• Defined pension benefit asset (net of associated deferred tax)	(129)
Deductions:	
• Intangible assets	(117)
Core tier 1 capital	**682**
Deductions:	
• Material holdings	(11)
Total capital after deductions	**671**

Table 4.3: Reconciliation of eligible capital and reserves to equity as at 31 December 2021.

£ million	31 December 2021
Eligible share capital and reserves (Table 4.2 - A+B+C)	928
Add unverified profits and gains in the period	197
Capital and reserves	**1,125**

5. Capital adequacy

M&GG's capital requirement is calculated as the higher of the Pillar 1 capital requirement (as per Table 5.1 below) and the Pillar 2 capital requirement. The Pillar 2 requirement is M&GG's own assessment of the minimum amount of capital deemed adequate to be held against the identified risks.

The Pillar 1 capital requirement for regulatory reporting is the higher of:

- the Fixed Overhead Requirement ("FOR"); and
- the sum of the credit and market risk requirements.

Table 5.1: Pillar 1 capital requirement as at 31 December 2021.

£ million	31 December 2021
FOR	155
Sum of:	108
• Credit and counterparty credit risk	84
• Market risk	24
Total Pillar 1 requirement	**155**

As at 31 December 2021, the capital requirement for M&GG under Pillar 1 was the FOR.

5.1. Pillar 1 assessment[1]

Credit risk[2]

M&GG has adopted the standardised approach for credit risk for calculating the minimum credit risk requirement under Pillar 1 of CRD III.

Credit risk is defined by M&GG as set out in section 3.3 of this document. An exposure is classified as impaired when the carrying value exceeds the amount expected to be recovered through use or sale. M&GG assesses its financial assets for indication of impairment on an on-going basis.

The External Credit Assessment Institutions ("ECAIs") used by M&GG are Fitch, Moody's and S&P. These are all recognised as eligible ECAIs and are used to assess the credit quality of all exposure classes, where applicable, using the credit quality assessment scale set out in BIPRU.

M&GG's credit risk exposures arise from both on and off-balance sheet items. In terms of the on-balance sheet items, these exposures are in the form of cash balances held at banks, Open Ended Investment Company ("OEIC") and Unit Trust ("UT") debtors, annual charges and exposures to other M&G plc companies. M&GG's off-balance sheet items are in relation to financial guarantees and undrawn commitments provided by M&GG.

[1] M&GG does not use the internal ratings-based ("IRB") and the credit risk mitigation ("CRM") for the calculation of the Pillar 1 capital requirement.

[2] M&G does not make any value adjustments in its credit risk Pillar 1 capital requirement.

Financial assets are past due if a counterparty has not made payment in accordance with the guidance in BIPRU 3.4.95. The impairment of assets is calculated as the amount by which the carrying amount of an asset exceeds its recoverable amount.

As at 31 December 2021, M&GG had not applied any credit risk mitigation techniques in the calculation of the Pillar 1 capital requirement.

Table 5.2: Credit risk – risk weighted asset exposures by asset class.

£ million	Maturity ≤ 1 year	Maturity ≥ 1 year	31 December 2021 Total
Institutions	137	-	137
Corporates	223	109	332
Collective investments undertakings ("CIU")	257	232	489
Past due	20	-	20
Other items	57	20	77
Total credit risk exposure	**694**	**361**	**1,055**

Market risk

M&GG's exposures to market risk arise from its FX positions because of overseas operations. These exposures give rise to capital requirements.

M&GG also has a second exposure to market risk through its investment management activities, as the income earned will vary dependent on the value of assets under management. However, this second exposure does not give rise to a capital requirement.

Pillar 1 market risk for M&GG is related to the FX position risk. M&GG is exposed to FX risk as a result of transactional FX exposures in its operating entities. These are primarily US Dollar, Euro and Singapore Dollar positions.

M&GG is exposed to structural FX risk because of its net investment in overseas operations which contribute to capital resources. These investments are recorded in the functional currencies of the individual entities and are subsequently translated to M&GG's presentational currency (GBP). FX differences arising on the translation of the foreign operations are recorded in the FX translation reserve through other comprehensive income and give rise to movements in M&GG's capital resources.

M&GG does not have a trading book. M&GG does not issue debt instruments or other liabilities and, as a result, is not exposed to excessive leverage risk. The leverage ratio is therefore not applicable.

M&GG does not use its balance sheet to originate or invest in securitised assets. Securitisation risk is therefore not applicable.

5.2. Other assessment items and Pillar 2

Pillar 2

To measure its Pillar 2 capital assessment, M&GG identifies its key sources of risk and considers whether there should be an additional requirement for each exposure not already covered under Pillar 1. This is achieved through the ICAAP undertaken by M&GG and the SREP performed by the FCA. The ICAAP also includes consideration of a range of scenarios to assess the impact of severe but plausible stress events on capital resources and regulatory capital requirements. The stress testing analysis is used to determine capital adequacy and if any additional capital is required.

Operational risk

Operational risk is defined within M&GG's risk framework and operational risk policy as described in section 3.3 of this document. There is no operational risk consideration under Pillar 1 but it is the most significant risk for the M&GG under Pillar 2.

M&GG has an established operational risk scenario analysis process that ensures:

- completeness of scenario identification: operational risk scenarios are reviewed for completeness in the context of M&GG's key risk reporting and are subject to review and challenge using established governance arrangements.
- forward looking assessment of exposures: Each scenario leverages on both subjective assessments by business specialists and use of objective data and analysis. This analysis includes use of both internal and external data sources. All scenario assessments are subject to review and challenge via established governance arrangements.
- risk based aggregation: M&GG considers correlations between scenarios to determine the potential for concurrency of events.

Non-trading book exposures to equity

M&GG holds seed investments across various underlying asset classes on the balance sheet. The investments are undertaken, usually at the inception of a new fund, to ensure that investment capital is available to the fund in the short-term, until sufficient third-party client assets are forthcoming and to assist funds with building their track records.

M&GG also runs a retail 'book' of units for its fund ranges which invest across a range of underlying asset types.

Non-trading book exposure to equities[3] are carried at the balance sheet date fair value, are not exchange traded and are recognised at fair value through profit or loss.

Table 5.3: Investments accounted for fair value

£ million	Balance sheet value	Fair value	Cumulative realised (gain)/loss in the period	Total Cumulative unrealised (gain)/loss since purchase
Seeding of funds	259.8	269.6	(0.86)	1.79
Book of units	26.2	26.2	0.0	n/a
Deferred bonus awards	93.2	93.2	(5.43)	(13.53)
Total	**379.2**	**389**	**(4.6)**	**(11.8)**

As at 31 December 2021, non-trading book exposures to the equity have been treated in line with the requirements of BIPRU. The value of investments is exposed to changes in market movements, which could reduce the value of the investments.

Interest rate risk in the non-trading book

M&GG has no debt and is not directly exposed to interest rate risk from an interest expense perspective. Cash deposits are primarily held with a short maturity date and no fixed rate liabilities exist. M&GG is not exposed to interest rate risk in the non-trading book, except for the book of units and capital investment in funds, which is considered immaterial.

[3] An overview of the accounting basis is included in the notes to the M&G Group Limited financial statements.

6. Remuneration disclosure

The following remuneration disclosure is made in accordance with the requirements of BIPRU, specifically BIPRU 11.5.18 R.

Decision making process for determining the remuneration policy

M&GG falls under the remit of the M&G plc Board Remuneration Committee (the "Committee") which is made up of non-executive Directors of M&G plc. The Committee met 7 times during 2021.

The Committee is responsible for matters including but not limited to:

- establishing, approving and maintaining the principles and framework of the remuneration policies of the Group;
- determining the design, implementation and operation of remuneration arrangements for the Chair of the Board, the Executive Directors, members of Senior Management, "identified staff" for all remuneration regulations that apply to the Group and overseeing remuneration for individuals whose total remuneration exceeds an amount determined by the Committee from time to time; and
- material changes to employee benefit structures (including pensions).

An independent remuneration consultant is appointed as advisor to the Committee on remuneration design and compliance with regulatory guidance. Deloitte were formally appointed as the advisor from 2 December 2020.

The Committee assesses the performance of its external advisers annually, to ensure that the advice provided is independent of any support provided to management. The role and activities of the Committee and their use of advisers are further detailed in the Remuneration report which is available on M&G plc's website.

The Committee takes full account of M&G plc's strategic objectives, values and long-term goals when setting remuneration policy and seeks to ensure the successful retention, recruitment and motivation of employees. Appropriate input is provided by representatives from Finance, Compliance and Risk to assist the Committee in determining the policy and managing remuneration outcomes.

The Committee regularly reviews the remuneration policy to ensure that it continues to promote sound and effective risk management and does not encourage risk taking in excess of levels of tolerated risk. Annual awards are subject to receipt by the Committee of a report from the Chief Risk and Compliance Officer ("CRCO").

The Committee may, from time to time, delegate certain responsibilities to operational committees which govern the day-to-day decision-making process in respect of certain remuneration arrangements. Where this is the case, the operational committee reports at least annually to the Committee on any decisions taken by the operational committee during the year in respect of individuals falling under the remit of the Committee.

Conflicts of interest

The remuneration policy is designed to ensure that any relevant conflicts of interest can be managed appropriately at all times and that the remuneration of employees is in line with the risk policies and objectives. No individual is involved in decisions relating to their own remuneration. The performance assessment and remuneration for control function staff, including Audit, Risk and Compliance, is determined independently of the businesses they oversee, with measures focused on the objectives of the function and individual.

The operation of the Committee and, in accordance with its terms of reference, engagement with material subsidiary boards, ensures that there is appropriate independent oversight of the Group's compliance with the remuneration policy and review of conflicts that may arise from the Group's remuneration practices. An assessment of the principles and processes for managing conflicts of interest from a remuneration perspective is documented and reviewed periodically. Overall accountability for the identification and management of conflicts of interest rests with the business, however, any conflicts must be taken into consideration in the context of remuneration outcomes with the Committee receiving input from the Group Risk and Compliance Officer on an annual basis.

Consideration of risk

The design and operation of all remuneration policies and incentive schemes must be aligned with the M&G plc's risk management principles and policies through the appropriate use of performance measures and targets and the discretion to adjust outcomes to reflect risk, compliance and conduct events.

The Risk Committee provides independent input to the Remuneration Committee to help with the assessment of scheme design and outcomes to ensure that they are consistent with these principles and policies. A formal risk and compliance report, compiled by the CRCO and approved by the Risk Committee is submitted to the Committee annually to provide an assessment of:

- the appropriateness of scheme design for the coming year; and
- the effectiveness of the risk and control environment, material events and specific conduct and compliance issues over the one and three-year performance periods of awards to enable the Remuneration Committee to determine if the outcome of schemes are appropriate or if any adjustments should be applied at scheme or individual level.

Input from the report is also used to assess whether there have been any events that warrant the consideration of malus and/or clawback on previously determined awards.

Sustainability risk

As a responsible investor we consider the sustainability risks of all our investments and advice by taking into consideration ESG factors that have the potential to have a material financial impact and seek to incorporate them into our general risk management framework. The effectiveness of sustainability risk management in investment decisions and advice is a consideration in the CRCO Risk and Compliance report and adherence to relevant principles and policies is monitored and reported to the Remuneration Committee as part of this report. In accordance with the 2022 M&G plc Remuneration Policy, any failings to meet the required standards of these principles and policies will be transparently reflected in the determination of remuneration outcomes.

Code staff criteria

Code Staff are individuals carrying out roles that can materially affect the risk profile of M&GG. The Code Staff population is identified in accordance with the BIPRU Remuneration Code (SYSC 19C.3.4R of the FCA Handbook) which establishes qualitative criteria to identify categories of staff whose professional activities have a material impact on the firm's risk profile. These categories broadly include the relevant Board of Directors, senior management, senior control function staff and other key risk takers. The Committee approves the identification and remuneration outcomes of Code Staff on an annual basis.

M&GG ensures that it applies all the necessary remuneration requirements that are required with consideration for the size, complexity and risk profile of the regulated entities in question. In some circumstances, this may require M&GG to increase the level of deferral for certain staff (irrespective of the level of their variable remuneration) and to ensure that a portion of this is delivered in particular instruments.

Remuneration policy and practice

Remuneration is made up of fixed pay (salary and benefits) and performance–related pay. Performance-related pay aligns the interests of participants with business objectives and the investment objectives of its clients.

M&GG operates a number of discretionary short-term incentive arrangements. In most cases, consideration is given to a range of financial and non-financial measures relating to individual, business unit/team and overall company performance. The extent to which each aspect of performance affects the overall payment level depends on the role and responsibilities of the individual.

M&GG operates a short-term incentive deferral policy whereby an element of the short-term incentive is deferred for a period of three years. Deferral is normally into M&G plc shares or notional fund units (or a combination of both) to ensure appropriate alignment to customer outcomes and the long-term sustainable performance of the business. Typically, the rate of deferral will be set so as to ensure that those in receipt of higher amounts of incentive pay are required to defer more.

M&G plc operates a long-term incentive plan ("LTIP") over the Group's shares which may have performance conditions aligned with its long-term financial and strategic/non-financial objectives and shareholder value creation. The performance/vesting period is determined prior to the award and will be for a minimum of 3 years. Participation in the LTIP is reserved for senior colleagues who have significant accountability and ability to influence the delivery of the Group's long-term business objectives. Awards are granted annually and participation is at the complete discretion of the Committee.

Malus provisions may be applied to deferred short-term incentive awards or awards made under the long-term incentive plan to support the required risk management and conduct standards of the firm.

M&GG operates a fully flexible policy on variable remuneration, which would enable it to award no variable remuneration should individual, business unit/team and/or company performance warrant this (by reference to both financial and non-financial performance, including risk management, controls and conduct).

Quantitative remuneration disclosure

27 individuals were identified as Code Staff for the 2021 performance year, of whom 10 are classified as Senior Management. On the basis that M&GG is one business unit, aggregate remuneration expenditure in respect of the Code Staff was as follows:

Table 6.1: Code Staff remuneration disclosure

	Aggregate remuneration awarded in 2021	Fixed remuneration	Variable remuneration
Senior management	£13,456,640	£4,714,284	£8,742,357
Other code staff	£7,559,118	£4,068,412	£3,490,705
Total	**£21,015,758**	**£8,782,696**	**£12,233,062**

The remuneration disclosed above includes:

- Non-executive Director fees for 2021;
- annual base salaries as at 31 December 2021 (or at termination date for leavers);
- cash short-term incentive awards for the 2021 performance year;
- deferred short-term incentive awards based on the face value of the award at the date of grant;
- LTIP awards based on the face value of the award at the date of grant - the figure above assumes 50% vesting for LTIP awards which are subject to performance conditions; and
- any other awards for new hires and any payments made to leavers.

In addition, Code Staff other than non-executive Directors, are eligible to receive employee benefits, such as private health care and pension, on the same basis as other employees.