21 March 2024

M&G plc full year 2023 results

STRONG FINANCIAL RESULTS UNDERPINNED BY DIVERSIFIED BUSINESS MODEL

CONTINUED PROGRESS ON STRATEGIC PRIORITIES AND BUSINESS TARGETS

Net Client Flows (excl. Heritage)[i]	Adjusted Operating Profit Before Tax	Operating Capital Generation	Shareholder Solvency II ratio	Total Dividend per Share
£1.1bn	**£797m**	**£996m**	**203%**	**19.7p**
2022: £0.2bn	2022: £625m[ii]	2022: £821m	YE 2022: 199%	2022: 19.6p

Andrea Rossi, Group Chief Executive Officer, said:

"M&G has performed very well in 2023. Today's results show positive business momentum and meaningful improvements across key financial metrics. Net client flows, adjusted operating profit, operating capital generation, and the shareholder Solvency II ratio are all up materially year-on-year.

"This financial performance underscores the importance of our balanced and diversified business model, with strong growth achieved despite continued macroeconomic uncertainty. The contribution to earnings from our Life and Wealth operations increased meaningfully year-on-year, while Asset Management showed great resilience delivering net client inflows of £0.8bn at a time when the market for active investment solutions suffered significant redemptions.

"I am also very pleased with our operational progress in the first full year since outlining our three strategic priorities: Financial Strength, Simplification and Growth. We took steps forward on our business targets, and in particular, we are well placed to achieve our three-year cumulative operating capital generation of £2.5 billion by the end of the year.

"As we look ahead, I am confident about the prospects for M&G as we remain focused on executing our strategic plan. Our diversified business model puts us in an excellent position to continue delivering attractive outcomes for both our clients and shareholders over the long-term."

Financial strength

- Adjusted operating profit before tax of £797 million was up 28% year-on-year (2022: £625 million[ii]), reflecting a resilient performance in Asset Management, and improved contribution from Life, Wealth and Corporate Centre.
- IFRS profit after tax of £309 million improved significantly (2022: £2,055 million loss[ii]), benefitting from higher adjusted operating profit and a meaningful reduction in losses relating to short-term fluctuations in investment returns.
- Operating change in contractual service margin (CSM) of £355 million was up 175% year-on-year (2022: £129 million), primarily due to higher expected real-world return on with-profits business CSM following the increase in risk-free rates during 2022.
- Operating capital generation of £996 million was also up by 21% year-on-year (2022: £821 million), supported by a strong underlying capital generation of £752 million (2022: £628 million) and other operating capital generation of £244 million (2022: £193 million).
- Over 2022 and 2023, we generated £1.8 billion of operating capital, which puts us in a very good position to achieve our three-year cumulative operating capital generation target of £2.5 billion by end of year.
- Shareholder Solvency II coverage ratio improved to 203% (2022: 199%).
- The 2023 total ordinary dividend of 19.7 pence per share (2022: 19.6 pence per share) is in line with our policy of stable or increasing dividends. The second interim dividend of 13.2 pence per share is payable on 9 May 2024.

[i] Net client flows (excluding Heritage) consist of net client flows in Asset Management, PruFund and other Wealth and exclude the expected outflows in our Heritage business in Life.

[ii] 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.

Simplification

- Good momentum in the first year of our Transformation programme, creating a leaner and more efficient organisation and improving our ability to serve clients, reduce costs and unlock growth.
- Maintained 2023 managed costs in line with 2022 level, due to cost savings of £73 million in 2023, offsetting inflationary pressures and freeing up resources to support growth.
- Completed a number of cost-saving initiatives including the voluntary redundancy programme; reduced our UK office spend by 15%; restructured our Private Markets team; and reduced consultancy and contractor spend by 11%.
- Migrated another 2 million clients to our strategic policy administration system, reduced complaints by improving client service levels and reduced average claim processing time in the Life business.
- Appointed Joseph Pinto (CEO, Asset Management), Clive Bolton (CEO, Life Insurance) and Caroline Connellan (CEO, Wealth) now providing dedicated leadership for each of our three businesses.

Growth

- Delivered improved net client inflows (excluding Heritage) of £1.1 billion (2022: £0.2 billion) despite challenging macroeconomic conditions.
- Achieved net client inflows of £1.5 billion in Wholesale Asset Management (2022: £0.5 billion) attributable to the breadth of our proposition and continued strong investment performance. As of 31 December 2023, 64% of our mutual funds ranked in the upper two performance quartiles over three years (31 December 2022: 67%) and 69% over five years (31 December 2022: 60%).
- Experienced £6.2 billion net client outflows in UK Institutional Asset Management (2022: £2.3 billion) triggered by the 2022 mini-budget crisis and the ongoing de-risking of Defined Benefit pension funds, with market conditions expected to normalise in 2024.
- Continued to expand our International Institutional Asset Management operations, delivering net client inflows of £5.5 billion in 2023, and almost £16 billion over the last four years, with key wins in the Netherlands, Germany, Australia and Japan.
- Delivered net client inflows of £0.2 billion in Wealth (2022: £0.2 billion) underpinned by PruFund sales in the UK of £6.3 billion, the highest level since 2019.
- Successfully re-entered the Bulk Purchase Annuity market, completing two deals with a combined premium of £617 million in 2023. Signed a third deal with a £309 million premium on 15 March 2024, and expect to achieve £1 billion to £1.5 billion sales per annum going forward.

Outlook

- 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.
- The 2023 Full Year Results underpin our continued confidence in the delivery of our strategic priorities and financial targets, as we remain focused on transforming M&G to deliver great client and shareholder outcomes.
- Our strategic priorities are clear: Maintain our financial strength, build on the progress already achieved in simplifying the business, better align to client needs, and deliver profitable growth in the UK and internationally.
- We are on track to achieving our operating capital generation target of £2.5 billion by end of 2024, and are making good progress on our 2025 financial targets, namely:
  - Generate £200 million of cost savings, gross of inflation, compared to 2022;
  - Reduce core Asset Management cost to income ratio to sustainably lower than 70%;
  - Deliver increased adjusted operating profit before tax from Asset Management and Wealth to more than 50% of the Group total excluding the Corporate centre; and
  - Reduce our leverage ratio to below 30%.
- Our dividend policy of delivering stable or growing dividends to our shareholders remains unchanged.

Performance highlights[i]	**For the year ended 31 December 2023**	For the year ended 31 December 2022
Adjusted operating profit before tax (£m)[ii]	**797**	625
IFRS profit/(loss) after tax (£m)[ii]	**309**	(2,055)
Operating change in CSM (£m)	**355**	129
Operating capital generation (£m)	**996**	821
Total capital generation (£m)	**358**	(397)
Shareholder Solvency II coverage ratio (%)	**203 %**	199 %
Dividend per share (p)	**19.7p**	19.6p
Assets under management and administration (£bn)	**343.5**	342.0
Net client flows (excluding Heritage) (£bn)	**1.1**	0.2

[i] Definitions of key performance measures are provided in the Supplementary information section of the Annual Report and Accounts on pages 366 to 367.

[ii] 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.

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Note to the editors

1. The consolidated financial statements have been prepared in accordance with UK-adopted international accounting standards, as adopted by the UK, and the Disclosure and Transparency Rules of the Financial Conduct Authority.
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. The results include transitional measures, which are presented assuming a recalculation as at the valuation date, using management's estimate of the impact of operating and market conditions. As at 31 December 2022, the recalculated measures did not align to the latest approved regulatory position and therefore the estimated Solvency II capital position differed from the position disclosed in the formal regulatory Quantitative Reporting Templates and the Group Solvency and Financial Condition Report of the same date. As at 31 December 2023, the recalculated and regulatory positions are aligned.
4. Total number of M&G plc shares in issue as at 31 December 2023 was 2,382,058,117.
5. A live webcast of the Full Year 2023 Results presentation and Q&A will be hosted by Andrea Rossi (CEO) and Kathryn McLeland (CFO) on 21 March 2024. Register to join at: https://mngresults.connectid.cloud/register
   Or dial in by phone in the UK: +44 20 3936 2999 or +44 800 358 1035 Access code: 718038
   For global dial-in numbers see: Global Dial-In Numbers
   The Results presentation will be available to download from 09:30 GMT on our Results, reports and presentations web page:
   https://www.mandg.com/investors/results-reports-and-presentations

6. **Dividend to be paid in May 2024**

Ex-dividend date	28 March 2024
Record date	2 April 2024
Payment of dividend	9 May 2024

7. **About M&G plc**
   M&G plc is a leading international savings and investments business, managing money for around 4.6 million individual clients and more than 900 institutional clients in 38 offices worldwide. As at 31 December 2023, we had £343.5 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 life and wealth 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.

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

9. **Forward-Looking Statements**
   This document may contain certain 'forward-looking statements' with respect to M&G plc (M&G) and its affiliates (the Group), its plans, its current goals and expectations relating to future financial condition, performance, results, operating environment, strategy and objectives. Statements that are not historical facts, including statements about M&G's beliefs and expectations and including, without limitation, statements containing the words 'may', 'will', 'could', '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 which are current 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, forward-looking

statements involve inherent assumptions, risk and uncertainty, as they generally relate to future events and circumstances that may not be entirely within M&G's control. A number of factors could cause M&G'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: changes in domestic and global political, economic and business conditions; 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; investment portfolio-related risks, such as the performance of financial markets generally; legal, regulatory and policy developments, such as, for example, new government initiatives and regulatory measures, including those addressing climate change and broader sustainability-related issues, and broader development of reporting standards; the impact of competition, economic uncertainty, inflation and deflation; the effect on M&G'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; changes in environmental, social and geopolitical risks and incidents, pandemics and similar events beyond the Group's control; the Group's ability along with governments and other stakeholders to measure, manage and mitigate the impacts of climate change and broader sustainability-related issues effectively; 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's IT systems (or those of its suppliers); the impact of changes in capital, solvency standards, accounting standards or relevant regulatory frameworks, and tax and other legislation and regulations in the jurisdictions in which the 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 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. This report has been prepared for, and only for, the members of M&G, as a body, and no other persons. M&G, its Directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come, and any such responsibility or liability is expressly disclaimed.

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Group Chief Executive Officer's statement

A clear sense of direction

2023: Strong financial performance, continued business momentum and good strategic progress

The underlying strength of our differentiated business model is driving good strategic progress. Combined with the hard work and commitment of our colleagues, we are delivering a strong operational and financial performance, as we transform the business, with better client outcomes.

Building the foundations for future success

In 2023, we embarked on a journey of ambitious growth aspirations, strategic realignments, and transformative initiatives. I am proud of the foundations we are laying for our future success. We are establishing a corporate infrastructure that brings us together: simplifying our business and improving the way we serve our clients, thereby creating more opportunities to grow M&G.

Underpinning this is our new purpose 'to give everyone real confidence to put their money to work' which reflects our long term ambition as a business. Central to this is our unwavering commitment to serving our clients with excellence. By prioritising their needs and expectations we will elevate the quality of our service delivery, foster stronger relationships and deeper trust, in turn delivering better customer outcomes, creating financial strength and achieving profitable growth.

Our balanced, diversified and synergistic business model enables this and through our new structure and refocused strategy we are driving forward Asset Management, reigniting our Life business, and refocusing Wealth, supported by a dedicated leadership team. I'm delighted to welcome to the Group Executive Committee Joseph Pinto as CEO Asset Management, Clive Bolton as CEO Life, and Caroline Connellan as CEO Wealth.

Leveraging our business model to deliver on our priorities

Despite a backdrop of volatile financial markets and geopolitical uncertainties, we've remained resilient and adaptive. We have delivered good progress across each of our three core strategic pillars: financial strength, simplification and profitable growth, as we become a more efficient and more international organisation.

Financial strength

Over the past year we have become more profitable and more capital generative, as well as more resilient. We delivered an increased adjusted operating profit before tax of £797 million, helped by higher interest rates, up 28% year-on-year with our solvency ratio improving to 203%.

Through effective capital management, our operating capital generation was up 21% to £996 million. Given the strength of our operating capital generation, we are confident that we will achieve our £2.5 billion target by the end of 2024.

All of this means we are continuing to deliver attractive sustainable returns to our shareholders with a total dividend for 2023 of 19.7 pence per share.

Simplification

We are a year into our transformation programme and have already taken significant steps to improve the efficiency of the business in the pursuit of better client service and outcomes. This has included starting to implement our new operating model, with accountable leaders for each of our three businesses, reducing our office space and enhancing the efficiency of our support functions.

We have a clear focus on transforming our cost base, creating capacity to investment to support priority areas, better client outcomes and growth opportunities.

We remain confident in achieving our target of a much improved operating model with costs reduced by £200 million by 2025 compared to 2022, of which £73 million savings have already been achieved.

Growth

We have made strong progress across all of our businesses.

Asset Management

Our Asset Manager has overcome significant market challenges and achieved positive net client flows of £800 million. It has delivered superior investment performance, grown internationally, and further diversified its client base and earnings mix. It is well positioned for the future, as it offers deep expertise in the asset classes attractive to our clients.

I am very pleased with the turnaround we delivered in our Wholesale business, underpinned by a strongly improved investment performance. Over the past two years, we achieved net client inflows of £2.0 billion, in contrast to the European market for active investment solutions which suffered net outflows of over £350 billion.

Group Chief Executive Officer's statement

Last year, our Institutional business faced meaningful headwinds in the UK market due to the ongoing de-risking of defined benefit pension funds. On the other hand, it thrived internationally, generating £5.5 billion of net client inflows over the last year alone and £16 billion over the past four years.

Client outcomes were strong across both the Institutional and Wholesale franchises, with roughly 50% of our wholesale funds ranked in the top quartile on both a three and five-year basis. We also continued to innovate, expanding the range of funds and investment vehicles that we offer such as new Asian and Global bond funds.

International Growth

Since 2020, our international AUMA have increased by 38% to £83 billion. In 2023 alone, we had meaningful client inflows across key European and Asia Pacific markets. It is a testament to the quality of our capabilities.

Deep expertise

We have strong capabilities and expertise in a number of areas that are attractive to our clients. We are recognised as industry leaders in Public Fixed Income and currently have assets under management of £139 billion. We have a compelling range of funds across developed and emerging markets, government and corporate debt.

Within Private Markets we are a European leader with £73 billion assets under management. We expect our Private Credit franchise to expand strongly with supportive market dynamics over the coming years, leveraging our strong track record both in terms of investment performance and innovation.

Life

Throughout 2023 our aim has been to reignite our Life business through a number of key initiatives. First, we successfully entered the bulk purchase annuity (BPA) market, completing two deals in 2023 and a third in March this year, bringing total sales to over £900 million. We hope to reach £1 billion to £1.5 billion in BPA sales per year, to fully offset the run-off of our annuity book and increase long-term capital generation.

Secondly, we are working to leverage better the powerful combination of our With-Profits Fund and the shareholder balance sheet, to develop new propositions for the benefit of our clients, the With-Profits Fund and the wider Group. With a Solvency ratio of over 400% and surplus capital of more than £7 billion, the With-Profits Fund has the capacity and appetite to deploy capital over the long-term. Working together, we are highly effective in serving clients needs and have the opportunity to develop new compelling solutions for individual and corporate clients.

Wealth

Our Wealth business has a strong brand and corporate heritage, an extensive reach through both tied-advice and third party distribution, and provides access for UK clients to a comprehensive range of multi-asset solutions, including our market leading PruFund.

Throughout 2023 we continued to see strong demand for our key propositions from our Wealth clients with PruFund Wealth sales increasing by 17%, reaching the highest level since 2019. We have seen great client feedback for PruFolio, our risk-rated range of multi-asset solutions and our Model Portfolio Service, with the latter achieving a best in class Net Promoter Score.

We see significant opportunities to grow our Wealth business over the coming years with over 12 million[1] people in the UK currently seeking assistance to achieve financial security. Clients want accessible advice, help in planning for life events, and a diversified multi-asset exposure that can reduce the volatility of their investments. Our Wealth franchise has what it needs to serve these clients and help them realise long-term value. By focusing on expanding our advice capabilities through our in-house Advice Training Academy and leveraging other multi-asset solutions to capitalise on growth opportunities, we expect to improve efficiency, client delivery, and financial outcomes in 2024 and beyond.

Making a difference

As a responsible corporate citizen, asset owner and asset manager, we can effect positive real-world change. Through community investment and sustainable practices, we're committed to creating value not only for our stakeholders but also for society at large, helping to break down barriers that prevent people from living the life they want, offering support at a strategic and local level and focused on urban regeneration, economic empowerment and community building.

Growth capital and early-stage innovation remain the core focus for our purpose-led flexible private assets strategy, Catalyst, backed by a £5 billion mandate from the With-Profits Fund. It also invested €75 million in Biobest, a global leader in biological crop protection, and US$15 million into Harbinger Health, a US-based business that is innovating to detect the earliest stages of cancer.

[1] Source: Boring Money 'How to know if you need financial advice'.

Group Chief Executive Officer's statement

Inspiring our colleagues

Our success is intrinsically tied to the dedication and expertise of our colleagues. By fostering a culture of innovation, collaboration and continuous learning, we are empowering our workforce to thrive and drive forward M&G.

Our aim is to create an exceptional place to work at M&G: a positive culture where our colleagues enjoy each day. We are committed to ensuring our colleagues' working lives are engaging and fulfilling, in a safe, inclusive and diverse environment. We want them to feel inspired to do their best for our clients to help grow the business and support the communities in which we operate. Our refreshed strategy, new purpose and focus on delivering sustainable and profitable growth requires our people to continue to evolve and adapt at pace. We continue to invest in our people across all our markets and have restructured and strengthened our leadership and management teams to take us forward into our next exciting stage of growth.

In addition to our new business CEOs, I was delighted to welcome Charlotte Heiss, General Counsel and Company Secretary and Rob Lewis, Chief Auditor to the Group Executive Committee. I'd like to again express thanks to Clare Bousfield, Alan Porter and Peter Grewal for their service to M&G and wish them all well for their future endeavours.

When I meet with colleagues, the sense of pride in the role that M&G plays and the determination to make a difference is clear. Thank you to everyone for their hard work and the part they have played in our success in 2023.

Outlook

As I look ahead to 2024 and beyond I am confident that we will continue to drive progress and deliver against the three pillars of our strategy - leading to sustainably better outcomes for clients and shareholders over time.

While I remain mindful of the current external environment that we operate in, and both the challenges and opportunities this presents M&G, the strength and diversification of our business model stands us in good stead.

Andrea Rossi
Group Chief Executive Officer

Chief Financial Officer's statement

Our financial performance in 2023 demonstrates the strength of our business model in a challenging macroeconomic environment

I'm delighted to present our 2023 results which continue to demonstrate the strengths of our business model and the progress we are driving as we focus on our three strategic pillars.

Wholesale Asset Management net client inflows of £1.5 billion (2022: £0.5 billion), continued the positive momentum in the business despite adverse market conditions.

Our Institutional business saw net client outflows of £0.7 billion (2022: £0.7 billion) driven by the continuing market volatility and redemptions following the September 2022 mini-budget in the UK. Despite these domestic headwinds, we continued to expand internationally, particularly in Europe.

Strong gross inflows of £7.0 billion led to net client inflows of £1.0 billion in our PruFund investment solution. In addition, our re-entry to the bulk purchase annuity market delivered £0.6 billion net inflows from two transactions announced in September in our Life business.

Total AUMA increased to £343.5 billion (2022: £342.0 billion), predominantly as a result of positive market movements on asset valuations which are offset by the expected outflows from our annuities and traditional with-profits businesses and a weakening of foreign currency-denominated assets.

Our 2023 IFRS result after tax shows a significant improvement on 2022; profit after tax attributable to equity holders for the year of £309 million (2022: £2,055 million loss). Yields did not increase as meaningfully this year as we saw in 2022, resulting in lower fair value losses on the surplus assets in the annuity portfolio and a small fair value gain on the interest rate hedging we have in place to protect our Solvency II capital position.

Adjusted operating profit before tax was £797 million, up 28% on 2022 (£625 million) driven by strong results, across both our with-profits business and annuities, primarily as a result of the increase in risk-free rates during 2022 offset by Asset Management adjusted operating profit being modestly down on 2022 and higher losses in our Platform and Advice business. The Corporate Centre benefitted from higher treasury income.

Operating Change in CSM, introduced on the adoption of IFRS 17 gives a wider representation of the drivers of performance by including the impact of new business and management actions, increased to £355 million (2022: £129 million).

Underlying capital generation improved by 20% to £752 million (2022: £628 million), which together with other operating results of £244 million (2022: £193 million) primarily caused by asset trading and optimisation in the With-Profits Fund, delivered a strong operating capital generation of £996 million (2022: £821 million). This means we are now at 73% of the £2.5 billion cumulative target by 2024, two years into the three year period.

Total capital generation of £358 million was offset by the payment of our dividends however, our shareholder Solvency II coverage ratio increased to 203% (2022: 199%) as a result of the Solvency Capital Requirement also reducing due to benefits from management actions.

We have made a strong start to the targeted cost savings of £200 million by 2025, and are taking action to reduce our core asset management cost/income ratio to below 70% by 2025 and to reduce our leverage ratio to below 30% by 2025. We are also still targeting Asset Management and Wealth adjusted operating profit before tax to be over 50% of the Group total excluding Corporate Centre by the end of 2025.

We paid an interim ordinary dividend of £152 million equal to 6.5 pence per share on 3 November 2023. A second interim dividend of £311 million equal to 13.2 pence per share will be paid on 9 May 2024, which means 19.7 pence per share of total dividends were paid to shareholders in relation to 2023.

As we look to 2024 we are confident about the momentum in our business and the resilience of our diversified model. In 2024 we are expecting some headwinds to the Group's adjusted operating profit before tax due to market conditions in 2023 and the impact of strengthening persistency assumptions in 2023. This is due to the revised adjusted operating profit methodology following the adoption of IFRS 17 being applied for Life and Wealth. The revised methodology reflects the opening value of the CSM, its amortisation rate and the expected real world return based on risk-free rates and expected market risk premiums at the start of the year.

I am pleased with these results in the face of continuing economic and geopolitical challenges and also the successful publication of both our interim and full-year results under IFRS 17, concluding what was significant activity and change for our business and the insurance industry as a whole.

Kathryn McLeland
Chief Financial Officer

Business and financial review

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 to reflect the retrospective application of IFRS 17, 'Insurance Contracts' and IFRS 9, 'Financial Instruments' from 1 January 2023. Additionally, our operating segments have been revised in the year to reflect the change in management structure; our previous segment Retail and Savings has been replaced with two new operating segments, Life and Wealth, while our Asset Management segment remains unchanged.

For the year ended 31 December	2023 £m	Restated 2022 £m
Asset Management	**242**	264
Life	**586**	460
Wealth	**180**	158
Corporate Centre	**(211)**	(257)
Adjusted operating profit before tax	**797**	625

Adjusted operating profit before tax increased to £797 million in the year ended 31 December 2023 (2022: £625 million) driven by an increase in adjusted operating profit from Life and a reduction in the losses from the Corporate Centre.

In Asset Management, revenues and costs were impacted by responsAbility, our Swiss-based team who specialise in impact investing that we acquired in May 2022. Revenues earned were £995 million (2022: £995 million) and operating costs were £791 million (2022: £763 million) of which £42 million (2022: £23 million) and £38 million (2022: £22 million), respectively, relate to responsAbility. Removing the impact of responsAbility, revenue earned was down by 2%, in line with average AUMA, and costs increased by 1.6%, which is below inflation and demonstrates our continued focus on cost discipline. These movements in revenue and costs lead to a fall in adjusted operating profit before tax to £242 million (2022: £264 million).

The improvement in yields during 2022 has driven the increase in Life adjusted operating profit by £126m to £586m (2022: £460m). The opening CSM value for the traditional with-profits business at the start of 2023 was higher than 2022 leading to a larger amount being released to profit in 2023. The expected return on surplus assets in the annuity portfolio also increased. The higher CSM release and return on annuity surplus assets have been partially offset by a decrease in the impact of asset trading in the annuity portfolio.

Wealth adjusted operating profit before tax has increased by £22 million to £180 million (2022: £158 million), following an improvement in the adjusted operating profit from the PruFund UK business which has been partially offset by an increase in the loss from Platform and Advice business due to inflationary pressures on costs. Adjusted operating profit from the PruFund UK business has benefited from the improvement in yields during 2022, similar to Life traditional with-profits business.

The Corporate Centre has benefited from an increased investment return from our treasury function, of £57 million (2022: £13 million) as a result of higher interest rates.

Adjusted operating profit before tax to IFRS result after tax

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

For the year ended 31 December	2023 £m	Restated 2022 £m
Adjusted operating profit before tax	**797**	625
Short-term fluctuations in investment returns	**(171)**	(2,858)
Mismatches arising on application of IFRS 17	**(41)**	(244)
Amortisation of intangible assets acquired in business combinations	**(39)**	(35)
Restructuring and other costs	**(141)**	(147)
IFRS profit/(loss) before tax and non-controlling interests attributable to equity holders	**405**	(2,659)
IFRS profit attributable to non-controlling interests	**16**	19
IFRS profit/(loss) before tax attributable to equity holders	**421**	(2,640)
Tax (charge)/credit attributable to equity holders	**(112)**	585
IFRS profit/(loss) after tax attributable to equity holders	**309**	(2,055)

Business and financial review continued

IFRS result after tax

The IFRS result after tax attributable to equity holders is a profit of £309 million compared to a £2,055 million loss for the year ended 31 December 2022. The favourable movement reflects a reduction in losses from short-term fluctuations in investment returns to £171 million loss in the period (2022: £2,858 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 rates for the year ended 31 December 2023 not being as significant as the year to 31 December 2022. The overall losses primarily comprise of a £4 million gain (2022: £989 million loss) on interest rate swaps purchased to protect PAC's Solvency II capital position against falls in interest rates and £159 million loss (2022: £1,301 million loss) from the difference in actual and expected long-term investment return on surplus assets backing the annuity portfolio, both of which have significantly improved due to the smaller increase in yields in 2023 compared to 2022. There were also losses of £123 million (2022: £104 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 equity markets.

In the year ended 31 December 2023, restructuring costs and other of £141 million mainly relate to costs to transform our operations of £73 million, £30 million of investment spend in building out capability in our Asset Management business and £19 million for the continuing development of the M&G Wealth platform business. This compares to £147 million of restructuring costs for the year ended 31 December 2022.

The equity holders tax charge for the year ended 31 December 2023 was £112 million (2022: tax benefit of £585 million) representing an effective tax rate of 26.6% (2022: 17.8%). Excluding non-recurring items, the equity holders' effective tax rate was 28.7% (2022: 28.7%). The equity holders' effective tax rate of 26.6% (2022: 22.2%) was higher than the UK statutory rate of 23.5% (2022: 19.0%) primarily due to the adverse impact of deductions not allowable for tax purposes.

Operating change in Contractual Service Margin (CSM)

Operating change in CSM is a new alternative performance measure introduced on the adoption of IFRS 17 and supplements the adjusted operating profit metric for the Life and Wealth segments. It represents the change in CSM during the period resulting from new business, interest accretion, experience changes and release of CSM to adjusted operating profit but excludes the impact of short-term fluctuations in investment return and accounting mismatches arising on the adoption of IFRS 17.

For the year ended 31 December	**2023 £m**	2022 £m
Life	**125**	75
Wealth	**230**	54
Operating change in CSM	**355**	129

Operating change in CSM increased to £355 million in the year ended 31 December 2023 (2022: £129 million), driven by higher expected real-world return on the CSM from with-profits business.

In Life, operating change in CSM increased to £125 million (2022: £75 million) primarily due to an increased contribution from traditional with-profits business of £67 million from £23 million in 2022. Shareholder annuities operating change in CSM of £36m (2022: £35 million) remained stable year on year with an increased contribution from new business of £42 million (2022: £6 million) due to the two bulk purchase annuity transactions in September 2023, offset by a reduction in the impact of assumption changes and variances to £60 million (2022: £94 million) mainly due to a lower benefit from longevity assumption changes.

Wealth operating change in CSM relates to PruFund UK business and increased by £176 million to £230 million (2022: £54 million). The expected real-world return on the CSM for PruFund business of £330 million (2022: £186 million) more than offset the CSM released to adjusted operating profit of £231 million (2022: £154 million). In addition, there was a higher contribution from new business of £94 million (2022: £18 million) to the operating change in CSM, due to increased gross client inflows to PruFund during 2023 combined with the increase in yields over 2022.

Business and financial review continued

Capital generation

The following table shows an analysis of total capital generation:

For the year ended 31 December	2023 £m	2022 £m
Asset Management	**246**	246
Life	**574**	486
Wealth	**163**	155
Corporate Centre	**(231)**	(259)
Underlying capital generation	**752**	628
Other operating capital generation	**244**	193
Operating capital generation	**996**	821
Market movements	**(507)**	(1,225)
Restructuring and other	**49**	(166)
Tax	**36**	173
Eligible own funds restriction	**(216)**	—
Total capital generation	**358**	(397)

Total capital generation was £358 million for the year ended 31 December 2023 (2022: negative £397 million), reflecting higher operating capital generation and an improved result from market movements, partially 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 31 December 2023, the sum of capital classed as Tier 2 and Tier 3 exceeds 50% of the regulatory Group Solvency Capital Requirement by £216 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 increased to £752 million (2022: £628 million). The increase is driven mainly by the higher expected return on the annuity surplus assets and the present value of shareholder transfers in respect of with-profits business following the rise in interest rates over 2022.

The increase in other operating capital generation in the year ended 31 December 2023 to £244 million (2022: £193 million) mainly reflects benefits from asset trading and optimisation, in particular a £225 million capital benefit from an update to the strategic asset allocation for the With-Profits Fund. There was a further benefit from updates made to the capital model to capture the economic impacts of COVID-19 and the invasion of Ukraine and also to reflect increased interest rate and inflation volatility. These benefits were partly offset by the impact of reducing the level of equity hedging in place in the With-Profits Fund.

Market movements over 2023 have resulted in a negative impact of £507 million (2022: negative £1,225 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 negative market movements are driven by a loss of £321 million (2022: positive £454 million) arising from a fall in the present value of shareholder transfers less equity hedges, and a loss on the value of surplus assets in the annuity portfolio of £93 million (2022: £1,602 million loss). Other market impacts include a gain on interest rate swaps, designed to protect the Solvency II capital position in a falling interest rate environment, of £4 million (2022: £989 million loss). Contributing to the negative impact, the movement in Solvency Capital Requirements attributable to market movements is an increase of £90 million compared to a reduction of £1,034 million in 2022. The large fall in Solvency Capital Requirement over 2022 was driven by the increase in interest rates, which materially decreased longevity risk capital; following the reduction in interest rates over 2023, this benefit has not been repeated.

Market movements include a negative impact of £264 million in respect of the UK Government's consultation on ground rents. This impact reflects a ratings downgrade to all impacted notes from AA- to A+ and an increase in the illiquidity premium used in the valuation of these assets to allow for the additional uncertainty in the cashflows arising from legislative risk partially offset by a reduction in technical provisions, together with an increase in the SCR to reflect the possible outcomes set out in the consultation. We have been engaging with the UK Government on this consultation and are fully supportive of the government's objective to strengthen leaseholder protection. Together with our peers, we have proposed a solution to achieve such a goal while preserving residential ground rents as an investable asset class for pension funds and the wider investment community. We remain hopeful of a solution that works for all parties.

The impact of restructuring costs and other movements of £49 million (2022: £(166) million) includes the impact on the capital position of restructuring costs. These costs are offset by a c.£177 million benefit from the impact of the Solvency II reforms, comprising a reduction in the Solvency II risk margin and the removal of a restriction that applied in relation to transition from Solvency I to Solvency II.

Business and financial review continued

Capital position

The Group's shareholder Solvency II coverage ratio increased to 203% (2022: 199%). However, Solvency II surplus decreased to £4.5 billion as at 31 December 2023 (2022: £4.6 billion), driven by a reduction in eligible own funds. Although capital generation, net of the eligible own funds restriction, was positive £358 million, this was offset by the payment of £462 million in dividends to shareholders. The solvency ratio increased as the Solvency Capital Requirement (SCR) also reduced, driven by benefits from management actions including asset trading and optimisation.

Our With-Profits Fund continues to have a strong Solvency II coverage ratio of 403%, increased from the 362% reported at 31 December 2022. Surplus increased as a result of strong underlying capital generation from in-force business and positive impacts from market movements and management actions, as well as the Solvency II reforms to the risk margin and transitional measures on technical provisions. This was partially offset by the impact of the distribution of c.£1 billion of excess surplus to policyholders.

The regulatory Solvency II coverage ratio of the Group as at 31 December 2023 was 167% (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:

As at 31 December	**2023 £m**	2022 £m
Nominal value of subordinated debt	**3,242**	3,264
Shareholder Solvency II own funds	**9,143**	9,268
Leverage ratio	**35%**	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 and remained at 35% (31 December 2022: 35%).

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

For the year ended 31 December	**2023 £m**	Restated[i] 2022 £m
Opening cash and liquid assets at 1 January	**986**	1,895
Cash remittances from subsidiaries	**725**	583
Corporate costs	**(129)**	(140)
Interest paid on core structural borrowings	**(189)**	(190)
Cash dividends paid to equity holders	**(462)**	(465)
Share buy-back	**—**	(503)
Shares purchased by employee benefits trust	**(5)**	—
Acquisition of and capital injections into subsidiaries	**(66)**	(221)
Interest income on intercompany loans	**42**	19
Other	**75**	8
Closing cash and liquid assets at 31 December[ii]	**977**	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 and representative disclosure.

ii Closing cash and liquid assets at 31 December 2023 included a £940 million (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 year ended 31 December 2023 represent the dividends and payments that will arise in the normal course of business. Total cash and liquid assets have decreased slightly over 2023 with dividend payments to equity holders of £462 million (2022: £465 million) and interest paid on structural borrowings of £189 million (2022: £190 million) mostly offset by cash remittances from our subsidiaries. During 2023, £66 million was injected into subsidiaries including £60 million funding to Wealth business subsidiaries. In 2022, £221 million was used to fund acquisitions and inject capital, including the acquisition of Sandringham and M&G Wealth Investments LLP and our partnership with Moneyfarm.

Business and financial review continued

Asset Management

2023 has been a mixed year for Asset Management, with momentum in our Wholesale business, but challenging market conditions in Institutional

Assets under management and administration and net client flows

	Net client flows For the year ended 31 December		AUMA[i] As at 31 December	
	2023 £bn	2022 £bn	**2023 £bn**	2022 £bn
Institutional Asset Management	**(0.7)**	(0.7)	**98.2**	99.2
Wholesale Asset Management	**1.5**	0.5	**55.0**	53.9
Other	**—**	—	**1.0**	1.1
Total Asset Management	**0.8**	(0.2)	**154.2**	154.2

i £14.1 billion (2022: £12.7 billion) of total Asset Management AUMA relates to assets under advice.

Wholesale Asset Management had net client inflows for the second year running, of £1.5 billion (2022: £0.5 billion) continuing the positive momentum in this business, despite the adverse market conditions.

Over three and five years our performance remains strong or has strengthened with 64% of our Wholesale funds ranked in the upper performance quartiles over three years (2022: 67%), and 69% ranked in the upper performance quartiles over five years (2022: 60%). However, our Wholesale funds performance over one year has reduced relative to the previous year, with 51% of our Wholesale funds ranked in the upper performance quartiles over one year (2022: 68%).

Much of the growth within Wholesale Asset Management has come from the UK, where we have attracted net client inflows of £1.5 billion, reflecting the continuing execution of our strategy, which is focused on deepening our relationships with key wealth managers and intermediaries, in addition to a strong equity performance. Continuing economic uncertainty, market volatility and International channel assets not performing as strongly meant the growth in the UK was offset by net client inflows in other parts of our Wholesale business.

Wholesale assets under management and administration (AUMA) increased by £1.1 billion to £55.0 billion driven by the net client inflows. This was partly offset by negative market and other movements of £0.4 billion in 2023, in particular due to the weakening of foreign currency-denominated AUMA, notably South African Rand, during 2023.

Net client outflows of £0.7 billion (2022: £0.7 billion) in our Institutional Asset Management business reflects the continuing impact of the significant market volatility in the UK in 2022, with redemptions triggered following September 2022's mini-budget leading to net client outflows of £3.5 billion during 2023. This was partially offset by £0.8 billion related to a large mandate win in Switzerland (Swiss Investment Fund for Emerging Markets), with the remainder primarily due to net client inflows within our Real Estate business.

Our expertise in private assets, which offers private fixed income, alternatives, real estate and infrastructure equity offerings, is a key component of our Institutional investment capability, and represents a resilient, high-margin source of revenues. Our private assets under management reduced by 4% to £73.4 billion of AUMA as at 31 December 2023 (2022: £76.6 billion) owing to negative market and other movements.

Business and financial review continued

Adjusted operating profit before tax

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

For the year ended 31 December	2023 £m	2022 £m
Fee-based revenues[i]	**1,025**	1,051
Asset Management operating expenses	**(791)**	(763)
Investment return	**24**	(5)
Adjusted operating profit attributable to non-controlling interests	**(16)**	(19)
Adjusted operating profit before tax	**242**	264

i £309 million of the fee-based revenue is in respect of assets managed on behalf of Life and Wealth (2022: £306 million).

Asset Management adjusted operating profit before tax decreased 8% to £242 million in the year ended 31 December 2023 (2022: £264 million) with improved investment return partly offsetting increased expenses.

Revenue earned by Institutional Asset Management was £588 million (2022: £598 million) and includes £42 million (2022: £23 million) from responsAbility, our Swiss-based team specialising in impact investing which was acquired in May 2022. The reduction in revenue is primarily due to lower fees earned on public fixed income as a result of the impact of lower AUMA from market volatility, and the continuing impact from the mini-budget crisis in 2022. In Wholesale Asset Management, revenue increased marginally to £407 million (2022: £397 million) as a consequence of increased AUMA. In addition, income earned from performance fees and carried interest included in fee-based revenue was £30 million (2022: £56 million), reducing after the higher revenue related to fund performance in 2022 which was not expected to repeat.

The Asset Management average fee margin of 33bps for 2023 was up from 32bps for 2022. Average fee margins in the larger Institutional Asset Management business increased to 30bps (2022: 29bps), while Wholesale Asset Management fee margins reduced to 37bps (2022: 38bps).

Asset Management operating expenses have increased by £28 million to £791 million (2022: £763 million) with costs of £38 million (2022: £22 million) from responsAbility. Removing the impact of responsAbility, costs increased by only 1.6%, significantly below inflation, demonstrating our continued focus on cost discipline. Market pressures meant that, excluding performance fees, the cost/income ratio for the Asset Management business increased to 79% (2022: 77%).

Investment return, which includes gains on seed investments, interest income on cash balances and hedges on management incentive schemes, improved by £29 million compared to 2022, reflecting an improvement in market conditions.

Capital generation

The following table shows an analysis of operating capital generation:

For the year ended 31 December	2023 £m	2022 £m
Underlying capital generation	**246**	246
Other operating capital generation	**50**	(33)
Operating capital generation	**296**	213

Underlying capital generation for the year ended 31 December 2023 remained stable at £246 million (2022: £246 million). The impact of higher costs and lower performance fee income has been offset by a reduction in the capital required to be held in respect of market risks, driven in part by the increased level of hedging in place.

Other operating capital generation has increased, driven primarily by the impact of an improvement in the process used to assess operational risk scenarios in respect of trade instruction and trade execution errors, which has resulted in a material reduction in the associated capital requirement. The improved investment income for 2023 relative to 2022 has also contributed to the increase. In 2022, other operating capital generation was negatively impacted by an increased allocation of operational risk capital requirements, offset elsewhere within the Group.

Business and financial review continued

Life

Our Life business has delivered strong results and successfully re-entered the bulk annuity market

Assets under management and administration and net client flows

	Net client flows For the year ended 31 December		AUMA As at 31 December	
	2023 £bn	2022 £bn	**2023 £bn**	2022 £bn
Traditional with-profits	**(4.2)**	(4.9)	**65.0**	67.5
Shareholder annuities	**(0.4)**	(1.1)	**15.8**	15.4
Europe	**0.1**	0.2	**6.4**	6.0
Other	**(1.2)**	0.1	**13.7**	14.1
Total Life	**(5.7)**	(5.7)	**100.9**	103.0

The Life business experienced total net client outflows of £5.7 billion (2022: £5.7 billion), as the majority of the business runs off. However, two bulk purchase annuity transactions in September 2023 contributed £0.6 billion (2022: £nil) gross client inflows following our strategic decision to re-enter the bulk purchase annuity market by taking a selective approach where our capabilities can make a material difference to clients and to increase our long-term capital generation. There were also net client inflows of £0.1 billion (2022: £0.2 billion) into PruFund by clients in Europe.

Life AUMA decreased to £100.9 billion (2022: £103.0 billion) driven by the net client outflows, partly offset by positive market and other movements of £3.6 billion (2022: £18.2 billion negative), reflecting movements in interest rates.

Adjusted operating profit before tax by source of earnings

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

	2023 £m	Restated 2022 £m
Traditional with-profits	**263**	200
Shareholder annuities	**331**	239
Europe	**(3)**	19
Other	**(5)**	2
Total Life adjusted operating profit before tax	**586**	460

Adjusted operating profit before tax from our Life business increased to £586 million (2022: £460 million) driven by increases in both the with-profits business and shareholder annuities business that reflect the impact of the increase in yields in 2022.

Europe includes the results of business written by Prudential International Assurance plc. Adjusted operating profit before tax reduced to a £3 million loss (2022: £19 million profit) caused by an increase in the provision under an agreement to reimburse the With-Profits Fund for its contribution to the costs for growing the business written in Poland, driven by an increase in expected expenses and decrease in expected future sales. In 2022, there was a benefit from extending the term of this agreement.

Business and financial review continued

Traditional with-profits

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

For the year ended 31 December	2023 £m	Restated 2022 £m
CSM release	**238**	186
Expected return on excess assets	**35**	19
Other	**(10)**	(5)
Traditional with-profits	**263**	200

The contractual service margin (CSM) for with-profits business is based on the expected value of future shareholder transfers. As a result of the rise in risk-free rates over 2022, the CSM at the start of 2023 is higher than at the start of 2022, and there has been an increase in the amount of the CSM released to adjusted operating profit to £238 million compared to £186 million for the year ended 31 December 2022. This represents 14.0% pa of the opening CSM attributable to the shareholder (2022: 13.2% pa).

The expected return on the shareholders' share of excess assets in traditional with-profits has increased by £16 million to £35 million. As the expected rate is set at the start of the reporting period, the rise in risk-free rates over 2022 resulted in an increased expected rate of return from 2.4% pa for 2022, to 6.0% pa for 2023.

Shareholder annuities

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

For the year ended 31 December	2023 £m	Restated 2022 £m
Expected return on excess assets	**205**	113
CSM release	**96**	89
Risk adjustment unwind	**19**	24
Asset trading and portfolio management actions	**2**	41
Experience variances	**9**	—
Other provisions and reserves	**—**	(28)
Shareholder annuities	**331**	239

The shareholder annuities result has increased by £92 million to £331 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, which is set at the start of the reporting period, has increased by £92 million to £205 million as a result of the rise in risk-free rates during 2022.

The release of the CSM to adjusted operating profit for shareholder annuities was £96 million compared to £89 million in the year ended 31 December 2022, benefiting from a higher opening CSM balance. The amount of CSM released represents 7.2% pa of the 31 December 2023 CSM before amortisation (2022: 6.9% pa).

Asset trading and portfolio management actions reduced £39 million to £2 million due to a reduction in asset trading profits on the matching adjustment portfolio. The 2022 profit was primarily one-off trading profits not repeated in 2023. Other provisions and reserves in 2022 included a loss from a change in assumptions in relation to lifetime mortgages, not repeated in 2023.

The credit quality of fixed income assets in the annuity portfolio remained strong over 2023. 98% of the debt securities held by the shareholder annuity portfolio are investment grade and only 19% are BBB. In addition 80% 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 c.4% of bonds in the portfolio being impacted.

Business and financial review continued

Operating change in Contractual Service Margin (CSM)

The following table shows operating change in CSM by source of earnings:

	2023 £m	2022 £m
Traditional with-profits	**67**	23
Shareholder annuities	**36**	35
Europe	**26**	29
Other	**(4)**	(12)
Total Life operating change in CSM	**125**	75

Operating change in CSM from the Life business increased to £125 million (2022: £75 million) primarily due to a higher contribution from traditional with-profits business.

The following table shows the traditional with-profits operating change in CSM in the period:

For the year ended 31 December	2023 £m	2022 £m
Expected real-world return on CSM	**309**	257
Release of CSM to adjusted operating profit before tax	**(238)**	(186)
Assumption changes and variances	**(4)**	(48)
Operating change in CSM	**67**	23

The expected real-world return on the CSM more than offset the release of the CSM to adjusted operating profit, resulting in a net contribution to operating change in CSM of £71 million (2022: £71 million). The total expected rate of return on the CSM is determined at the start of the year and increased to 8.5% for 2023 compared to 4.8% for 2022 due to the increase in risk free rates over 2022.

Assumption changes and variances of £4 million loss (2022: £48 million loss) are driven by a reduction in future investment management expenses for traditional with-profits business offset by the impact of changes to the strategic asset allocation for the With-Profits Fund and higher actual claims than expected. The driver of the 2022 loss was higher claims compared to those expected causing future expected shareholder transfers to be lower leading to a reduction in the CSM.

The following table shows the shareholder annuities operating change in CSM in the period:

For the year ended 31 December	2023 £m	2022 £m
Interest accreted on the CSM	**30**	24
Release of CSM to adjusted operating profit before tax	**(96)**	(89)
New business	**42**	6
Assumption changes and variances	**60**	94
Operating change in CSM	**36**	35

Interest accreted on the CSM at 2.3% pa in 2023 (2022: 1.9% pa) and increased by £6 million to £30 million. The interest rate is based on the forward curve 'locked in' at IFRS 17 transition date (1 January 2022) and as limited new business is written the interest applied will increase over time, moving along the upward-sloping December 2021 yield curve.

The increase in the contribution from new business to the operating change in CSM was driven by the two bulk purchase annuity transactions in September 2023.

Assumption changes and variances have fallen to £60 million (2022: £94 million). There was a large benefit in 2022 from longevity assumptions changes, which arose from lower expected future improvements in mortality rates, offset by an increase in short-term expense assumptions for project costs. In 2023, the impact of longevity assumption changes and experience variances is much smaller.

Business and financial review continued

Capital generation

The following table shows an analysis of operating capital generation:

For the year ended 31 December	2023 £m	2022 £m
Traditional with-profits	**182**	192
Shareholder annuity and other life	**350**	251
Europe	**42**	43
Underlying capital generation	**574**	486
Model improvements	**77**	(8)
Assumption changes	**8**	158
Management actions and other (incl. experience variances)	**62**	(83)
Other operating capital generation	**147**	67
Operating capital generation	**721**	553

Traditional with-profits business generated underlying capital of £182 million in the year ended 31 December 2023 (2022: £192 million) due to an increase in the value of shareholder transfers driven by higher yields over 2022 offset by losses on equity hedges.

There also continued to be significant capital generation from the shareholder annuity and other life business, contributing £350 million (2022: £251 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. The bulk purchase annuity transactions entered into over 2023 generated a capital strain of £26 million, at the date of the transaction.

Other operating capital generation increased to £147 million (2022: £67 million), largely reflecting model updates and management actions including the beneficial impact of an update to the strategic asset allocation of the With-Profits Fund offset by the impact of reducing the level of equity hedging. Asset trading in the annuity portfolio contributed £52 million in 2023, offset by the impact of an update to the matching adjustment strategy. The benefit from model improvements reflects updates made to the capital model to fully capture the economic impact of the COVID-19 pandemic and the Russian invasion of Ukraine, as well as the increased volatility in inflation and interest rates. In 2022, other operating capital generation included a significant £213 million benefit from longevity assumption changes, which has not been repeated in 2023.

Management actions and other has increased by £145 million to £62 million which includes the impact of non-market experience.

Business and financial review continued

Wealth

Net client inflows into PruFund have improved following strong underlying investment performance

Assets under management and administration and net client flows

	Net client flows For the year ended 31 December		AUMA As at 31 December	
	2023 £bn	2022 £bn	**2023 £bn**	2022 £bn
PruFund UK	**0.9**	0.5	**54.8**	52.3
Platform and Advice	**0.3**	0.2	**19.2**	18.0
Other Wealth	**(1.0)**	(0.5)	**13.1**	13.1
Total Wealth	**0.2**	0.2	**87.1**	83.4

Overall, Wealth achieved net client inflows of £0.2 billion (2022: £0.2 billion). Wealth AUMA increased to £87.1 billion (2022: £83.4 billion) driven by positive market and other movements of £3.5 billion.

PruFund is an insurance-based smoothing solution offering a blend of public and private investments to clients of Wealth and Life. PruFund UK attracted net client inflows of £0.9 billion (£1.0 billion including non-UK in Life) for the year ended 31 December 2023 (2022: £0.5 billion; £0.7 billion including non-UK in Life). The improved inflows into PruFund follow strong underlying investment performance and digitisation in 2023. These trends underscore the importance of broadening the accessibility of our propositions offered to our Wealth clients and in May we launched PruFund Growth, PruFund Cautious and five Risk Managed PruFunds on our M&G Wealth platform, expanding the reach of this unique proposition, while improving and digitising adviser journeys.

Adjusted operating profit before tax by source of earnings

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

For the year ended 31 December	**2023 £m**	Restated 2022 £m
PruFund UK	**228**	190
Platform and Advice	**(32)**	(24)
Other Wealth	**(16)**	(8)
Total Wealth adjusted operating profit before tax	**180**	158

Wealth adjusted operating profit before tax increased to £180 million (2022: £158 million) with an increase in the adjusted operating profit arising from PruFund UK business being partly offset by higher losses from our Platform and Advice business. The losses from the Platform and Advice business increased to £32 million (2022: £24 million) driven by an increase in costs owing to inflation and a one-off intangible asset write-off in the first half of 2023 of £7 million. In Other Wealth, revised pricing in non-with-profit products has led to lower revenues.

Business and financial review continued

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

For the year ended 31 December	2023 £m	Restated 2022 £m
CSM release	**231**	154
Expected return on excess assets	**34**	21
Other	**(37)**	15
PruFund UK	**228**	190

CSM has increased due to the same reasons outlined in Life, resulting in an additional £77 million released to profit compared to the year ended 31 December 2022. This represents 11.6% pa of the opening CSM attributable to the shareholder (2022: 10.6% pa). The amortisation rate for PruFund business is lower than the rate for the traditional with-profits business in Life as that business is more mature and is running off faster.

The expected return on the shareholders' share of excess assets in Wealth has increased by £13 million to £34 million. The higher expected rate of return of 6.0% in 2023 compared to 2.4% in 2022 increased the expected return on excess assets to £42 million (2022: £21 million). This is partly offset by £9 million loss as a result of an arrangement entered into between the With-Profits Fund and the shareholder fund in the year. The nature of this transaction is a monetisation of future shareholder transfers, whereby a portion of these transfers will be refunded to the With-Profits Fund in exchange for an immediate cash sum. The loss recorded reflects the real-world unwinding of the swap liability created.

In Other, the year to 31 December 2023 included a £28 million loss as a result of the above arrangement; primarily a one-off due to the valuation difference between the real world valuation of the swap liability created relative to the IFRS 17 measurement basis. There is a further £15 million loss due to an increase in expected expense overrun on writing new PruFund UK business during the year partially offset by a reduction in risk adjustment.

Operating change in Contractual Service Margin (CSM)

The following table shows the operating change in CSM for PruFund business in Wealth in the period:

For the year ended 31 December	2023 £m	2022 £m
Expected real-world return on CSM	**330**	186
Release of CSM to adjusted operating profit before tax	**(231)**	(154)
New business	**94**	18
Assumption changes and variances	**37**	4
Operating change in CSM	**230**	54

The expected real-world return on the CSM for PruFund UK business more than offset the release of the CSM to adjusted operating profit, resulting in a net contribution to operating change in CSM of £99 million (2022: £32 million). The expected real-world rate of return on the CSM increased to 8.5% for 2023 compared to 4.8% for 2022 due to higher risk free rates at the start of the year. The opening CSM for PruFund UK business also increased due to the higher risk free rates and net client inflows. The combination of the higher opening CSM and expected real-world rate of return lead to the expected real-world return on CSM increasing to £330 million (2022: £186 million).

PruFund UK new business also contributed £94 million (2022: £18 million) to the increase in CSM over the period, the rise relative to 2022 is due to the material increase in yields over 2022 and the higher net client inflows.

Assumption changes and variances of £37 million (2022: £3 million) are driven by a reduction in future investment management expenses on PruFund UK business and an improvement in persistency.

Business and financial review continued

Capital generation

The following table shows an analysis of operating capital generation:

For the year ended 31 December	2023 £m	2022 £m
PruFund UK	**207**	180
– In-force	**229**	216
– New business	**(22)**	(36)
Platform and Advice	**(29)**	(25)
Other Wealth	**(15)**	—
Underlying capital generation	**163**	155
Model improvements	**10**	(9)
Assumption changes	**(18)**	—
Management actions and other (incl. experience variances)	**90**	136
Other operating capital generation	**82**	127
Operating capital generation	**245**	282

Underlying capital generation from Wealth increased in the year ended 31 December 2023 to £163 million (2022: £155 million).

The contribution from in-force PruFund UK business increased to £229 million (2022: £216 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.

New business strain from the PruFund UK business has reduced to £22 million (2022: £36 million); the increase in risk-free rates increased the value of future expected shareholder transfers reducing the cost of writing new business. Included in 2022 was the release of a £15 million provision for new business expense overruns.

Platform and Advice and Other Wealth business contributed negative capital generation, driven mainly by operating losses in respect of Platform and Advice business and some unit-linked business. In 2022, smaller losses in respect of Other Wealth business were offset by a reduction in SCR, resulting in nil net impact.

Other operating capital generation of £82 million reflects a c.£180 million benefit from the update to the strategic asset allocation of the With-Profits Fund, partly offset by the reduction of the level of hedging in place in the With-Profits Fund. Non-market experience variances contributed a loss of £40 million compared to a gain of £61 million as at 31 December 2022.