9 March 2023

M&G plc full year 2022 results

Positive net client flows in Asset Management and Wealth in a year of significant market uncertainty

Returned nearly £1 billion to shareholders through dividends and share buy-back

On track to achieve £2.5 billion operating capital generation target by 2024

Launched transformation programme to drive simplification, unlock growth and deliver £200 million cost savings

Net client flows excl. Heritage	Adjusted Operating Profit	Operating Capital Generation	Shareholder Solvency II ratio	Shareholder returns[1]
£0.3bn	£529m	£821m	199%	£968m
2021: £0.6bn	2021: £721m	2021: £1,117m	2021: 218%	2021: £466m

Andrea Rossi, Group Chief Executive Officer, said:

"I am pleased with how M&G has performed in 2022. Through exceptional market volatility we have clearly demonstrated the diversification and resilience of our business model, which has enabled us to deliver consistently attractive returns for both our shareholders and for our clients.

"We achieved positive net client flows in Asset Management and Wealth for the second year in a row driven by the ongoing turnaround in Wholesale Asset Management and increased client inflows into PruFund. Adjusted operating profit has been impacted by market volatility but benefited from Wealth's contribution more than doubling, as we continue to invest in the propositions offered by this business. We have also made a solid start to the achievement of our operating capital generation target of £2.5 billion by the end of 2024.

"We now have a clear strategy to build on the inherent strengths of our differentiated business model. We will maintain our financial strength, simplify our business and deliver profitable growth. We are at the start of the next phase for M&G and I am encouraged by the progress we are already making.

"Looking ahead, despite the uncertainty of the external environment, our diversified business model and strong financial position will underpin our ability to invest in the growth of our business and continue to deliver attractive shareholder returns."

Strong capital position underpins resilient financial performance

- Operating capital generation of £821 million (2021: £1,117 million) with improved underlying capital generation of £628 million (2021: £484 million) demonstrating the resilience of our business model offset by a lower benefit from management actions
- Shareholder Solvency II coverage ratio remained strong at 199% (2021: 218%) which includes the impact of dividends, the share buy-back[1] and the dilutive impact from the recognition of deferred tax assets due to mark to market losses on our assets
- Adjusted operating profit (AOP) before tax of £529 million (2021: £721 million), affected by £(172) million non-cash items from duration mismatching losses in the annuity portfolio and foreign exchange losses on our USD denominated subordinated debt
- Assets under management and administration decreased by £28 billion to £342 billion (2021: £370 billion), predominantly driven by adverse market movements
- IFRS loss after tax of £1,619 million (2021: £92 million profit), impacted by non-cash losses in the fair value of the surplus assets in our annuity portfolio and derivatives used to hedge the Solvency II balance sheet caused by increasing yields
- Second interim dividend of 13.4 pence per share, in line with our policy of stable or increasing dividends, with a total dividend per share of 19.6 pence per share, up 7% year-on-year (2021: 18.3 pence per share)

[1] Includes ordinary dividends paid in the year and the total consideration for the share buy-back programme

Positive flows and improved investment performance despite adverse market conditions

- Positive net client flows excl. Heritage of £0.3 billion (2021: £0.6 billion) despite significant market volatility
- Wholesale Asset Management returned to net client inflows for the first time since 2018 of £0.5 billion (2021: £3.8 billion outflows) reflecting the measures taken to improve investment performance - 68% of Wholesale funds now in upper two performance quartiles over one year (31 December 2021: 45%)[2]
- Net client inflows of £0.2 billion (2021: £1.4 billion outflows) into Wealth driven by continued operational improvements and a strong performance from PruFund
- Roll out of PruFund-type products in Europe progressing with the launch of Future+ in Italy and Ireland

Outlook

- Simplify the operating model and unlock growth through a new transformation programme, and by end of 2025:
  - Generate £200 million of cost savings, gross of inflation; and
  - Reduce core Asset Manager cost/income ratio to sustainably lower than 70%
- Deliver increased adjusted operating profit from Asset Management and Wealth to more than 50% of the Group total by end of 2025
- On track to achieve £2.5 billion operating capital generation target by 2024
- Aim to reduce our leverage ratio to below 30% by 2025[3]

Performance highlights[4]	2022	2021
Adjusted operating profit before tax (£m)	**529**	721
IFRS (loss)/profit after tax (£m)	**(1,619)**	92
Assets under management and administration (£bn)	**342.0**	370.0
Net client flows excluding Heritage (£bn)	**0.3**	0.6
Operating capital generation (£m)	**821**	1,117
Total capital generation (£m)	**(397)**	1,822
Shareholder Solvency II coverage ratio (%)	**199 %**	218 %

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Notes to Editors

1. The results in this preliminary announcement are prepared in accordance with UK-adopted international accounting standards, and are based on the consolidated financial statements of M&G plc.
2. The shareholder view and regulatory view of the Solvency II coverage ratio as at 31 December 2022 assumes transitional measures on technical provisions which have been recalculated using management's estimate of the impact of operating and market conditions at the valuation date.
3. Total number of M&G plc shares in issue as at 31 December 2022 was 2,374,712,121.
4. A Live webcast of the Full Year 2022 Results presentation and Q&A will be hosted by Andrea Rossi (CEO) and Kathryn McLeland (CFO) on Thursday 9 March at 11:00 GMT. You can register to view the webcast live and results presentation here (results presentation will be available from 07:00 GMT):
   https://mngresults.connectid.cloud/register.
   Dial in: UK freephone 0800 640 6441/ All other locations +44 203 936 2999 Participant code: 928303
5. The person responsible for arranging the release of this announcement on behalf of M&G plc is Alan Porter, General Counsel and Company Secretary.
6. **Dividend to be paid in April 2023**

Ex-dividend date	16 March 2023
Record date	17 March 2023
Payment of dividend	27 April 2023

7. **About M&G plc**
   M&G plc is a leading international savings and investments business, managing money for around 5 million retail clients and more than 800 institutional clients in 26 markets. As at 31 December 2022, we had £342 billion of assets under

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[2] Source M&G plc and Morningstar Inc.
[3] Leverage ratio is defined as nominal value of debt as a percentage of M&G plc's shareholder Solvency II own funds
[4] Definitions of key performance measures are provided in the Supplementary information section of this preliminary announcement

management and administration. With a heritage dating back more than 170 years, M&G plc has a long history of innovation in savings and investments, combining asset management and insurance expertise to offer a wide range of solutions. We serve our retail and savings clients under the M&G Wealth and Prudential brands in the UK and Europe, and under the M&G Investments brand for asset management clients globally.

8. Additional Information

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

9. Forward-Looking Statements

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

LEI: 254900TWUJUQ44TQJY84 Classification: 1.1 Annual Financial and Audit Reports

Group Chief Executive Officer's statement

Since joining M&G in October I have been getting to know the business, and meeting colleagues, clients and investors to understand their perspectives. By engaging with our stakeholders, I now know where our capabilities are strongest and how we can grow M&G in line with our values. Our differentiated business model is one of the main reasons I wanted to join M&G and our performance in 2022 has demonstrated the underlying strength and resilience of that business model in challenging markets. The war in Ukraine and inflationary environment have highlighted global vulnerability to supply shocks and the impact of these on social, economic and political resilience.

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

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

Our structure is our strategic advantage

Our differentiated business model, with three distinct, yet balanced and complementary parts, I believe gives us a strategic advantage and the right foundations to grow profitably and responsibly. We lead with the Asset Manager at the core of our business, with Heritage and Wealth supporting its growth and enabling it to prosper: together, all thrive.

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

Excellent investment capabilities

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

I'd like to highlight the strong performance of Wholesale Asset Management, with net client flows improving by £4.3 billion compared to last year. We are delighted with this achievement, which is a result of the tremendous work by our colleagues over several years. The recovery in our UK business was demonstrated by our Wholesale net sales ranking returning to the top 10 in the final quarter of 2022. At the same time, Wealth net client flows increased by £1.6 billion compared to last year, due to improved flows into PruFund.

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

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

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

Expanding our Retail and Savings products

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

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

In 2022, we added PruFund Planet to our platform. This is the first time that PruFund has been offered on any investment platform in the UK. We have also made Future+ available to investors in Italy and Ireland. This adds a new growth driver to our international activities. Future+ is a new family of global multi-asset funds delivering smoothed outcomes, designed to replicate the success of our flagship PruFund range outside the UK.

Group Chief Executive Officer's statement continued

Meeting rising demand from individual clients

We created M&G Wealth, our integrated wealth management business, to meet rising demand for easily accessible investment advice and wealth solutions. We now offer access to a broad and integrated range of savings and advice solutions for UK clients, through financial advisers, hybrid advice and direct digital channels, such as our new &me investing app. We are scaling our capabilities through organic growth and acquisitions and aim to complement our existing network of advisers with Continuum (Financial Services), a fast-growing provider of independent financial advice.

In Heritage, we have maintained our focus on improving the quality of client service and outcomes, and I am pleased that our client net promoter score, covering both Wealth and Heritage clients, has improved to 14 (2021: 9).

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

A long-term, responsible investor

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

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

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

Simplification and profitable growth

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

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

To enable this, we have launched a transformation programme targeting £200 million of cost savings gross of inflation by the end of 2025. By 2025, we also aim to reduce our Asset Manager cost/income ratio to below 70%, but this is not the destination: our longer-term ambition is a cost/income ratio in the range of 66% to 68%.

In continuing to transform our business, we will empower colleagues and improve accountability, pushing operational accountability into the business areas that are close to our clients. This will make M&G a better place to work and we will also become easier to do business with, deliver better client outcomes and drive growth. To meet our £200 million cost savings target we will improve client journeys through digitalisation; remove management layers and streamline governance, enhancing our approach to shared services and outsourcing; and optimise our operating model.

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

Empowering our teams

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

In 2022, we continued to evolve our well-being support, extending our families policy to include neonatal support. We also provided a one-off, non-pensionable payment to colleagues earning less than £50,000 to help alleviate the impact of the cost-of-living crisis. We are committed to creating both a diverse and inclusive workforce, and playing our part across the wider financial services industry.

Group Chief Executive Officer's statement continued

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

Executive and leadership changes

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

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

Priorities for 2023

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

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

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

Business and financial review

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

Wholesale Asset Management returned to net client inflows for the first time since 2018 of £0.5 billion (2021: £3.8 billion net client outflows), demonstrating the ongoing turnaround of the business. Our Institutional business saw net client outflows of £0.7 billion (2021: £5.8 billion net client inflows) with the domestic Institutional business impacted by the UK mini-budget crisis in the second half of the year.

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

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

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

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

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

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

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

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

In 2023 we will be publishing our IFRS 17 compliant results for the first time, marking the end of what has been significant implementation programme for our business and the insurance industry as a whole.

Business and financial review continued

Adjusted operating profit before tax

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

£m	For the year ended 31 December 2022	2021
Core Asset Management	**213**	277
Performance fees (including carried interest) and investment return	**51**	38
Asset Management	**264**	315
Wealth	**96**	41
Heritage	**466**	620
Other	**10**	(1)
Retail and Savings	**572**	660
Corporate Centre	**(307)**	(254)
Adjusted operating profit before tax	**529**	721

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

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

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

In Retail and Savings, the total with-profits shareholder transfer net of hedging and other gains/losses has increased by £86 million to £354 million, benefiting from the strong investment performance. However, this has been offset by a £142 million fall in the annuity margin driven by the upwards movement in yields and other one-off benefits from 2021 that did not repeat in 2022, including a prior year release of the annuity sales practices review provision of £31 million in 2021. This has led to a reduction in Retail and Savings adjusted operating profit to £572 million (2021: £660 million).

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

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

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

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

Business and financial review continued

IFRS (loss)/profit after tax

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

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

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

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

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

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

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

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

Further information on tax is provided in Note 6 of the consolidated financial statements.

Capital generation

The following table shows an analysis of total capital generation:

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

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

Business and financial review continued

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

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

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

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

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

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

Capital position

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

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

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

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

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

Financing and liquidity

The following table shows key financing and liquidity information:

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

Business and financial review continued

The main metric we use to manage our debt is the leverage ratio, defined as nominal value of debt as a percentage of M&G plc's shareholder Solvency II own funds. Our leverage ratio of 35% at 31 December 2022 has increased from 28% at 31 December 2021, as a result of the fall in Solvency II Own Funds in the year due to the impact of market movements as set out earlier under Capital position.

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

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

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

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

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

Dividends

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

Asset Management

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

Assets under management and administration and net client flows

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

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

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

Following the change in operating segmentation of our business in 2021, we have renamed Retail Asset Management to Wholesale Asset Management to better reflect the nature of the business. Wholesale Asset Management returned to a net client inflow position of £0.5 billion (2021: £3.8 billion net client outflow) for the first time since 2018 following actions taken to improve investment performance and reposition the business. Although a reduction on the £0.8 billion net client inflows reported at 30 June 2022, this reflects the elevated economic volatility experienced in the second half of the year. Performance has improved markedly with 68%[5] of Wholesale funds now in the upper two performance quartiles over one year (31 December 2021: 45%). Our partnerships with European distributors have enabled us to deliver strong inflows into our investment solutions channel, which accounted for £1.9 billion of net client inflows in the year.

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

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

Net client outflows of £0.7 billion (2021: £5.8 billion net client inflows) in our Institutional Asset Management business reflect the significant market volatility experienced in the year. This was particularly evident in our UK Institutional business with net client outflows of £2.3 billion, with a notable spike in outflows following September's mini-budget. In contrast, our International Institutional business continued to deliver strong net client inflows of £1.6 billion. The net outflows are a combination of the gross outflows, particularly in the second half of the year of £8.9 billion (H2 2021: £5.3 billion) driven by the mini-budget, and the reduced gross inflows of £3.1 billion to £13.1 billion (2021: £16.2 billion) reflecting changing client behaviour when markets are volatile.

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

Our expertise in private assets, which offers private fixed income, alternatives, real estate and infrastructure equity offerings, is a key component of our institutional investment capability, and represents a resilient, high-margin source of revenues. Our private assets under management increased 6% to £76.6 billion of AUMA as at 31 December 2022 (2021: £72.6 billion).

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

Asset Management continued

Adjusted operating profit before tax

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

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

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

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

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

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

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

Adjusted operating expenses have increased by £91 million to £763 million (2021: £672 million) with an additional £20 million of costs recognised relating to MGSA and £22 million in relation to responsAblity. In addition, we have incurred increased costs relating to the further development of our capabilities and operations across our international investment function of £20 million and a further £21 million increase as a result of the impact of inflation on our cost base. The cost/income ratio for the Asset Management business increased to 77% (31 December 2021: 70%) reflective of the rising operating expenses of the business and the impact of inflation in the year.

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

Capital generation

The following table shows an analysis of operating capital generation:

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

Operating capital generated by Asset Management decreased to £213 million (2021: £328 million), driven by a decrease in underlying capital generation due to the fall in adjusted operating profit, and an increase in risk capital held in respect of credit and market risk. The fall in other operating capital generation is attributable to an increased allocation of operational risk capital (offset elsewhere in the Group), and lower investment return.

On 1 January 2022, M&G Investments adopted the new Investment Firms Prudential Regime (IFPR). The impact of the change in capital regime was a decrease in capital of £35 million primarily in relation to deferred tax assets that could no longer be recognised. This one-off impact is not included in determining operating capital generation but included in total capital generation as restructuring and other.

Retail and Savings

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

Assets under management and administration and net client flows

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

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

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

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

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

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

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

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

Adjusted operating profit before tax

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

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

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

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

The decrease in annuity margin is primarily driven by rising yields in the period due to differences in the duration of the long-term annuity liabilities and the assets held to back them. The duration mismatch between these assets and liabilities resulted in a loss of £122 million in the period (2021: £6 million).

Retail and Savings continued

The with-profits shareholder transfer net of hedging and other gains/losses increased to £354 million (2021: £268 million). The gross with-profits shareholder transfer increased to £446 million (2021: £366 million) primarily as a result of strong investment performance in 2021 and 2022. The result also benefited from the release of the provision for expense overruns of £15 million which had been established on new business written in the With-Profits Fund due to lower sales volumes in 2021. This was partly offset by fair value losses of £102 million (2021: £60 million) on the derivative instruments used to mitigate equity risk in respect of shareholder transfers.

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

Other shareholder (loss)/profit is down on 2021 with 2022 impacted by the recognition of a £35 million insurance reserve in relation to initial expenses on the Future+ business and also includes a number of insurance reserve movements in relation to legacy remediation programmes and other provisions.

Adjusted operating profit before tax sources of earnings

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

	For the year ended 31 December	
£m	2022	2021
Wealth	**96**	41
Heritage	**466**	620
of which Annuities	**227**	369
of which traditional with-profits	**226**	205
Other Retail and Savings	**10**	(1)
Adjusted operating profit before tax	**572**	660

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

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

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

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

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

The following table provides further analysis of the annuity margin:

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

Recurring sources of earnings from the annuity book are primarily the return on assets held to back capital requirements and the release of the margins held in respect of credit risk, mortality and expenses. These recurring sources of earnings decreased by 5% to £163 million (2021: £172 million) mainly driven by a lower benefit in the year from the release of credit default allowances.

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

Retail and Savings continued

The benefit from longevity assumption changes has increased by £68 million to £193 million mainly due to lower expected future improvements in mortality rates (see Note 11.1.3 for more detail on the Group's longevity assumptions).

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

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

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

Capital generation

The following table shows an analysis of operating capital generation:

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

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

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

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

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

Retail and Savings continued

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

There also continued to be significant underlying capital generation from the shareholder annuity and other business, contributing £311 million (2021: £236 million). The increase in underlying capital generation for the annuity business is driven by an increase in the expected return on surplus assets in the annuity portfolio as a result of substantial rises in yields over 2022.

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

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

Consolidated Financial Statements

Consolidated income statement

For the year ended 31 December	Note	2022 £m	Restated[i] 2021 £m
Gross premiums earned		**6,507**	4,784
Outward reinsurance premiums		**(479)**	(1,019)
Earned premiums, net of reinsurance		**6,028**	3,765
Investment return		**(15,656)**	12,909
Fee income	4	**1,037**	983
Other income		**46**	115
Total revenue, net of reinsurance		**(8,545)**	17,772
Benefits and claims	11	**6,987**	(3,551)
Outward reinsurers' share of benefit and claims	11	**(241)**	(8,480)
Movement in unallocated surplus of the With-Profits Fund	11	**1,689**	(1,052)
Benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance		**8,435**	(13,083)
Administrative and other expenses	5	**(2,810)**	(2,803)
Movements in third party interest in consolidated funds		**547**	(1,019)
Finance costs	5	**(162)**	(160)
Total charges, net of reinsurance		**6,010**	(17,065)
Share of profit from joint ventures and associates		**38**	81
(Loss)/profit before tax[ii]		**(2,497)**	788
Tax credit/(charge) attributable to policyholders' returns	6	**379**	(707)
(Loss)/profit before tax attributable to equity holders		**(2,118)**	81
Total tax credit/(charge)	6	**878**	(696)
Less tax (credit)/charge attributable to policyholders' returns		**(379)**	707
Tax credit attributable to equity holders	6	**499**	11
(Loss)/profit for the year		**(1,619)**	92
Attributable to equity holders of M&G plc		**(1,632)**	83
Attributable to non-controlling interests		**13**	9
(Loss)/profit for the year		**(1,619)**	92
Earnings per share:			
Basic (pence per share)	7	**(66.0)**	3.3
Diluted (pence per share)	7	**(66.0)**	3.2

i Following a review of the Group's presentation of tax positions within consolidated investment funds, comparative amounts have been restated from those previously reported. The restatement has had no impact on profit for the year or net assets. See Note 1.1 for further information.

ii This measure is the profit before tax measure under UK-adopted IAS but it is not the result attributable to equity holders. This is principally because the corporate taxes of the Group include those on the income of consolidated with-profits and unit-linked funds that, through adjustments to benefits, are borne by policyholders. These amounts are required to be included in the tax charge of the company under UK-adopted IAS. Consequently, profit before tax is not representative of pre-tax profits attributable to equity holders. Profit before tax is determined after deducting the cost of policyholder benefits and movements in the liability for unallocated surplus of the With-Profits Fund after adjusting for taxes borne by policyholders.

Consolidated statement of comprehensive income

For the year ended 31 December	Note	2022 £m	2021 £m
(Loss)/profit for the year		**(1,619)**	92
Items that may be reclassified subsequently to profit or loss:			
Exchange movements arising on foreign operations		**20**	(13)
Other comprehensive income/(loss) on items that may be reclassified subsequently to profit or loss		**20**	(13)
Items that will not be reclassified to profit or loss:			
Gain on remeasurement of defined benefit pension schemes	9	**29**	71
Tax on remeasurement of defined benefit pension schemes	6	**(7)**	(19)
		22	52
Add amount transferred to Unallocated surplus of the With-Profits Fund, net of related tax		**2**	(2)
Other comprehensive income on items that will not be reclassified to profit or loss		**24**	50
Other comprehensive income for the year, net of related tax		**44**	37
Total comprehensive (loss)/income for the year		**(1,575)**	129
Attributable to equity holders of M&G plc		**(1,588)**	120
Attributable to non-controlling interests		**13**	9
Total comprehensive (loss)/income for the year		**(1,575)**	129

Consolidated statement of financial position

As at 31 December	Note	2022 £m	Restated[i] 2021 £m
Assets			
Goodwill and intangible assets		**1,877**	1,615
Deferred acquisition costs		**94**	94
Defined benefit pension asset	9	**155**	38
Investment in joint ventures and associates accounted for using the equity method		**413**	469
Property, plant and equipment		**1,953**	2,536
Investment property		**16,505**	19,698
Deferred tax assets	6	**651**	119
Reinsurance assets	11	**1,186**	1,669
Equity securities and pooled investment funds		**70,127**	74,069
Loans		**3,330**	5,809
Debt securities		**62,821**	81,059
Derivative assets		**2,850**	3,373
Deposits		**21,401**	17,633
Current tax and other tax assets		**289**	375
Accrued investment income and other debtors		**2,340**	2,647
Assets held for sale[ii]		**684**	1,023
Cash and cash equivalents		**4,884**	6,908
Total assets		**191,560**	219,134
Equity			
Share capital	10	**119**	130
Share premium reserve	10	**370**	370
Shares held by employee benefit trust		**(70)**	(93)
Treasury shares		**(47)**	(1)
Retained earnings		**14,023**	16,550
Other reserves		**(11,613)**	(11,660)
Equity attributable to equity holders of M&G plc		**2,782**	5,296
Non-controlling interests		**48**	49
Total equity		**2,830**	5,345
Liabilities			
Insurance contract liabilities	11	**49,805**	63,223
Investment contract liabilities with discretionary participation features	11	**78,594**	82,743
Investment contract liabilities without discretionary participation features	11	**11,937**	14,884
Unallocated surplus of the With-Profits Fund	11	**15,130**	16,723
Third party interest in consolidated funds		**10,389**	12,636
Subordinated liabilities and other borrowings	12	**7,537**	8,930
Defined benefit pension liability	9	**—**	84
Deferred tax liabilities		**780**	1,419
Lease liabilities		**420**	413
Current tax and other tax liabilities	6	**113**	359
Derivative liabilities		**4,185**	2,689
Other financial liabilities		**2,172**	2,882
Provisions		**90**	138
Accruals, deferred income and other liabilities	13	**7,406**	6,666
Liabilities held for sale[ii]		**172**	—
Total liabilities		**188,730**	213,789
Total equity and liabilities		**191,560**	219,134

i Following a review of the Group's presentation of tax positions within consolidated investment funds, comparative amounts have been restated from those previously reported. The restatement has had no impact on the profit for the year or net assets. See Note 1.1 for further information.

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

Consolidated statement of changes in equity

	Note	Share capital £m	Share premium £m	Shares held by employee benefit trust £m	Treasury shares £m	Retained earnings £m	Other reserves £m	Total equity attributable to equity holders of M&G plc £m	Non-controlling interests £m	Total equity £m
As at 1 January 2022		**130**	**370**	**(93)**	**(1)**	**16,550**	**(11,660)**	**5,296**	**49**	**5,345**
(Loss)/profit for the year		**—**	**—**	**—**	**—**	**(1,632)**	**—**	**(1,632)**	**13**	**(1,619)**
Other comprehensive income for the year		**—**	**—**	**—**	**—**	**24**	**20**	**44**	**—**	**44**
Total comprehensive (loss)/ income for the year		**—**	**—**	**—**	**—**	**(1,608)**	**20**	**(1,588)**	**13**	**(1,575)**
Shares purchased in buy-back[i]	10	**(11)**	**—**	**—**	**(47)**	**(456)**	**11**	**(503)**	**—**	**(503)**
Dividends paid to equity holders of M&G plc	8	**—**	**—**	**—**	**—**	**(465)**	**—**	**(465)**	**—**	**(465)**
Dividends paid to non-controlling interests		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(14)**	**(14)**
Shares distributed by trusts		**—**	**—**	**23**	**—**	**(22)**	**—**	**1**	**—**	**1**
Vested employee share-based payments		**—**	**—**	**—**	**—**	**23**	**(23)**	**—**	**—**	**—**
Expense recognised in respect of share-based payments		**—**	**—**	**—**	**—**	**—**	**34**	**34**	**—**	**34**
Tax effect of items recognised directly in equity		**—**	**—**	**—**	**—**	**1**	**5**	**6**	**—**	**6**
Other movements		**—**	**—**	**—**	**1**	**—**	**—**	**1**	**—**	**1**
Net (decrease)/increase in equity		**(11)**	**—**	**23**	**(46)**	**(2,527)**	**47**	**(2,514)**	**(1)**	**(2,515)**
As at 31 December 2022		**119**	**370**	**(70)**	**(47)**	**14,023**	**(11,613)**	**2,782**	**48**	**2,830**

i On 24 March 2022, the Group announced that it would commence a share buy-back programme to purchase ordinary shares of 5 pence each up to a maximum consideration of £500m and the programme completed on 27 October 2022 for a total consideration, including expenses and stamp duty, of £503m. Shares with a nominal value of £11m were cancelled, leading to a capital redemption reserve for the same amount, disclosed within other reserves.

	Note	Share capital £m	Share premium £m	Shares held by employee benefit trust £m	Treasury shares £m	Retained earnings £m	Other reserves £m	Total equity attributable to equity holders of M&G plc £m	Non-controlling interests £m	Total equity £m
As at 1 January 2021		130	370	(117)	(1)	16,853	(11,658)	5,577	8	5,585
Profit for the year		—	—	—	—	83	—	83	9	92
Other comprehensive income for the year		—	—	—	—	50	(13)	37	—	37
Total comprehensive income for the year		—	—	—	—	133	(13)	120	9	129
Non-controlling interest arising through business combinations		—	—	—	—	—	—	—	38	38
Dividends paid to equity holders of M&G plc	8	—	—	—	—	(466)	—	(466)	—	(466)
Dividends paid to non-controlling interests		—	—	—	—	—	—	—	(6)	(6)
Shares distributed by trusts		—	—	24	—	(24)	—	—	—	—
Vested employee share-based payments		—	—	—	—	33	(33)	—	—	—
Expense recognised in respect of share-based payments		—	—	—	—	—	40	40	—	40
Tax effect of items recognised directly in equity		—	—	—	—	21	4	25	—	25
Net increase/(decrease) in equity		—	—	24	—	(303)	(2)	(281)	41	(240)
As at 31 December 2021		130	370	(93)	(1)	16,550	(11,660)	5,296	49	5,345

Consolidated statement of cash flows

For the year ended 31 December	Note	2022 £m	Restated[i] 2021 £m
Cash flows from operating activities:			
(Loss)/profit before tax		**(2,497)**	788
Non-cash and other movements in operating assets and liabilities included in profit before tax:			
Investments		**26,477**	(804)
Other non-investment and non-cash assets[ii]		**1,761**	10,524
Policyholder liabilities (including unallocated surplus)[ii]		**(22,179)**	(9,846)
Other liabilities (including operational borrowings)		**(4,210)**	1,213
Interest income, interest expense and dividend income		**(4,491)**	(4,028)
Other non-cash items[iii]		**242**	(456)
Operating cash items:			
Interest receipts		**2,529**	2,321
Interest payments[i]		**(88)**	(144)
Dividend receipts		**2,220**	2,066
Tax paid[iv]		**(268)**	(332)
Net cash flows from operating activities[v]		**(504)**	1,302
Cash flows from investing activities:			
Purchases of property, plant and equipment		**(573)**	(770)
Proceeds from disposal of property, plant and equipment		**1**	41
Net cash (paid)/acquired on acquisition of subsidiaries[vi]		**(210)**	13
Divestment in subsidiaries by consolidated private equity vehicles[vii]		**429**	250
Investment in subsidiaries by consolidated private equity vehicles[vii]		**(15)**	—
Net cash flows from investing activities		**(368)**	(466)
Cash flows from financing activities:			
Interest paid		**(190)**	(186)
Lease capital repayments[i]		**(30)**	(23)
Shares purchased in buy-back	10	**(503)**	—
Dividends paid to equity holders of M&G Plc	8	**(465)**	(466)
Dividends paid to non-controlling interests[iii]		**(14)**	(6)
Net cash flows from financing activities		**(1,202)**	(681)
Net (decrease)/increase in cash and cash equivalents		**(2,074)**	155
Cash and cash equivalents at 1 January		**6,908**	6,776
Effect of exchange rate changes on cash and cash equivalents		**50**	(23)
Cash and cash equivalents at 31 December		**4,884**	6,908

i Following a review of the Group's presentation of tax positions within consolidated investment funds, comparative amounts have been restated from those previously reported. The restatement has had no impact on profit for the year or net assets. See Note 1.1 for further information. Additionally, interest payments on leases have been reallocated to Interest payments, these were previously reported within Lease capital repayments.

ii Other non-investment and non-cash assets and Policyholder liabilities (including unallocated surplus) for the year ended 31 December 2021 includes the impact of the £9.6bn Part VII transfer of annuities business to Rothesay Life PLC.

iii Dividends paid to non-controlling interests of £6m for the year ended 31 December 2021 have been reallocated from operating activities to financing activities.

iv Tax paid for the year ended 31 December 2022 includes £68m (2021: £173m) paid on profits taxable at policyholder rather than shareholder rates.

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

vi Net cash (paid)/acquired on acquisition of subsidiaries consists of £227m (2021: £0.2m) of cash paid, net of £17m (2021: £13m) cash acquired. Refer to Note 2.1 for further information on shareholder acquisitions made in the year.

vii Divestment/investment in subsidiaries by consolidated private equity vehicles represents the amount paid or received in relation to the purchase or sale of underlying investee companies held by the Group's consolidated private equity vehicles.

1 Basis of preparation and significant accounting policies

1.1 Basis of preparation

The consolidated results in this preliminary announcement have been taken from the M&G plc Group's 2022 Annual Report and Accounts which will be made available on the Company's website on 23 March 2023.

The consolidated financial statements for the year ended 31 December 2022 comprise the financial statements of M&G plc ("the Company") and its subsidiaries (together referred to as ''the Group''). The consolidated financial statements have been prepared in accordance with UK-adopted international accounting standards (IAS). The consolidated financial statements have been prepared under the historical cost basis except for investment property measured at fair value, certain financial assets and financial liabilities (including derivative instruments) that are measured at fair value through profit and loss (FVTPL), insurance contract liabilities that are measured in accordance with the requirements of IFRS 4: Insurance contracts, and defined benefit assets and liabilities, measured at the fair value of plan assets less the present value of the defined benefit obligations. Assets and disposal groups held for sale are stated at the lower of the previous carrying amount and fair value less costs to sell.

The basis of preparation and significant accounting policies applicable to the consolidated financial statements can be found in the basis of preparation and significant accounting policies section of the 2022 Annual Report and Accounts.

The preliminary announcement for the year ended 31 December 2022 does not constitute statutory accounts as defined in section 435 of the Companies Act 2006. The statutory results under UK-adopted international accounting standards for full-year 2022 have been audited by PricewaterhouseCoopers LLP (PwC) and for 2021 were audited by KPMG LLP (KPMG). PwC have reported on the 2022 consolidated financial statements and their audit report is unqualified and does not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The Group's 2021 Annual Report and Accounts have been filed with the Registrar of Companies.

Unless otherwise noted, the consolidated financial statements are presented in million pounds sterling (£m), the Group's functional and presentation currency.

Restatement of prior period information

The comparative consolidated statement of financial position as at 31 December 2021 has been restated following a presentational change in tax-related balances arising in certain consolidated property funds which were disclosed incorrectly in the prior period. The tax balances have been reallocated from Accruals, deferred income and other liabilities to Current tax liabilities and other taxes and Deferred tax liabilities.

The comparative consolidated income statement for the year ended 31 December 2021 has also been restated to reallocate tax expense from Administrative and other expenses to Tax charge attributable to policyholders' returns, to reflect this presentational change. As a result, Profit before tax for the year ended 31 December 2021 has been restated.

The restatement has had no impact on profit for the year ended 31 December 2021 or total equity attributable to shareholders as at 31 December 2021.

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

	Note	For the year ended 31 December 2021 as previously reported £m	Adjustments £m	For the year ended 31 December 2021 restated £m
Consolidated income statement:				
Administrative and other expenses	5	(2,884)	81	(2,803)
Total charges, net of reinsurance		(17,146)	81	(17,065)
Profit before tax		707	81	788
Tax charge attributable to policyholders' returns	6	(626)	(81)	(707)
Total tax charge	6	(615)	(81)	(696)
Less tax charge attributable to policyholders' returns		(626)	(81)	(707)

1 Basis of preparation and significant accounting policies continued

1.1 Basis of preparation continued

	Note	As at 31 December 2021 as previously reported £m	Adjustments £m	As at 31 December 2021 restated £m	1 January 2021 as previously reported £m	Adjustments £m	1 January 2021 restated £m
Consolidated statement of financial position:							
Liabilities:							
Deferred tax liabilities	6	1,157	262	1,419	916	210	1,126
Current tax liabilities and other taxes	6	323	36	359	276	21	297
Accruals, deferred income and other liabilities	13	6,964	(298)	6,666	6,964	(231)	6,733
Other		205,345	—	205,345	214,985	—	214,985
Total liabilities		213,789	—	213,789	223,141	—	223,141

In the consolidated statement of cash flows, £81m has been reallocated from Profit before tax and split between Other liabilities of £67m, Other non-cash items of £3m and Tax paid of £17m, to reflect the change in presentation. The reallocation from Profit before tax relates to policyholder tax and does not impact Profit before tax attributable to equity holders. Comparatives in the impacted notes to the consolidated financial statements have also been restated.

Going concern

The Directors have reasonable expectation that the Group as a whole has adequate resources to continue in operational existence over a period of at least 12 months from the date of approval of the consolidated financial statements.

To satisfy themselves of the appropriateness of the use of the going concern assumption in relation to the consolidated financial statements, the Directors have considered the liquidity projections of the Group, including the impact of applying specific liquidity stresses. The Directors also considered the ability of the Group to access external funding sources, including access to the £1.5bn revolving credit facility and the management actions that could be used to manage liquidity.

In addition, the Directors also gave particular attention to the solvency and liquidity projections of the Group under various stressed scenarios which consider various assumptions around inflation and actions by central banks resulting from the current macroeconomic environment and uncertain geo-political situation which affect supply chains and consumer behaviours.

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

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

We also assessed the resilience of our financial position in a high inflationary environment scenario and the economic implications resulting from it.

The results of the assessment demonstrated the ability of the Group to meet all obligations, including payments to shareholders and debt holders, and future business requirements for the foreseeable future, considering relevant management actions are taken as necessary. In addition, the assessment demonstrated that the Group was able to remain above its regulatory solvency requirements in a stressed scenario.

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

1.2 New accounting pronouncements

1.2.1 New accounting pronouncements adopted by the Group

In preparing these consolidated financial statements the Group has adopted the following standards, interpretations and amendments that became effective during the year:

- Reference to the Conceptual Framework (Amendments to IFRS 3), issued in May 2020 and effective from 1 January 2022
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16), issued in May 2020 and effective from 1 January 2022
- Onerous Contracts – Costs of Fulfilling a Contract (Amendments to IAS 37), issued in March 2018 and effective from 1 January 2022

None of the above interpretations and amendments to standards are considered to have a material effect on these consolidated financial statements.

1 Basis of preparation and significant accounting policies continued

1.2 New accounting pronouncements continued

1.2.2 New accounting pronouncements not yet effective

The following standards, interpretations and amendments have been issued but are not yet effective for the Group. This is not intended to be a complete list as only those standards, interpretations and amendments that could have an impact upon the consolidated financial statements are discussed.

1.2.2.1 IFRS 9: Financial Instruments

In July 2014, the International Accounting Standards Board (IASB) published IFRS 9: Financial Instruments (IFRS 9) which is effective for annual periods beginning on or after 1 January 2018, except as described below, with early application permitted.

IFRS 9 replaces the existing standard, IAS 39: Financial Instruments-Recognition and Measurement. The standard provides new principles for determining classification and measurement of financial instruments, introduces a new forward-looking impairment model based on expected losses (replacing the existing incurred loss model) and provides new guidance on application of hedge accounting.

In September 2016, the IASB published amendments to IFRS 4, "Applying IFRS 9 Financial Instruments with IFRS 4: Insurance Contracts" to address the temporary consequences of the different effective dates of IFRS 9 and IFRS 17: Insurance Contracts. The amendments include an optional temporary exemption from applying IFRS 9 and the associated amendments until IFRS 17 comes into effect. This temporary exemption is available to companies whose predominant activity is to issue insurance contracts based on meeting the eligibility criteria as at 31 December 2015 as set out in the amendments. In June 2020, the IASB amended IFRS 17 so that the revised effective date of the standard is for periods beginning on or after 1 January 2023. The IASB also confirmed through this amendment that IFRS 9 could be delayed for insurers to keep the effective dates of IFRS 9 and IFRS 17 aligned.

As the Group met the required eligibility criteria for temporary exemption, the adoption of IFRS 9 has been deferred to coincide with the adoption of IFRS 17 on 1 January 2023. The comparative period will be restated for IFRS 9 and the Group will apply the classification overlay in IFRS 17 to financial assets derecognised in 2022 and present these assets as if classification and measurement of IFRS 9 have been applied.

Classification and Measurement

Under IFRS 9 financial assets are classified into three categories: fair value through profit or loss, fair value through other comprehensive income or amortised cost. The classification is based on the business model on which the financial assets are managed and the contractual cash flows of these assets. IFRS 9 largely retains the requirements of IAS 39 in respect of the classification and measurement of financial liabilities.

IFRS 9 will affect the classification and measurement of financial instruments held at 1 January 2023 as follows:

	Classification under IAS 39	Classification under IFRS 9
Financial assets:		
Loans	Loans and receivables/FVTPL designated	FVTPL mandatory
Derivative assets	FVTPL held for trading	FVTPL mandatory
Equity securities and pooled investment funds	FVTPL designated	FVTPL mandatory
Deposits	Loans and receivables	Amortised cost
Debt securities	FVTPL designated	FVTPL mandatory
Accrued investment income and other debtors	Loans and receivables	Amortised cost
Cash and cash equivalents	Loans and receivables	Amortised cost
	Classification under IAS 39	Classification under IFRS 9
Financial liabilities:		
Investment contract liabilities without DPF	FVTPL designated	FVTPL designated
Third party interests in consolidated funds	FVTPL designated	FVTPL designated
Subordinated liabilities and other borrowings	Amortised cost	Amortised cost
Derivative liabilities	FVTPL held for trading	FVTPL mandatory
Other financial liabilities	Amortised cost	Amortised cost
Accruals, deferred income and other liabilities[i]	Amortised cost	Amortised cost

i Except Deferred consideration which is classified as FVTPL designated under IAS 39 and IFRS 9.

The majority of the Group's financial instruments are measured at fair value both before and after transition to IFRS 9. The impact to Group total equity from reclassifying loans from amortised cost to fair value is a decrease of £0.1bn at 1 January 2023 and an increase of £0.1bn at 1 January 2022.

1 Basis of preparation and significant accounting policies continued

1.2 New accounting pronouncements continued

Impairment

A new impairment model will apply to the Group's financial assets measured at amortised cost. The Group estimate that due to the size and nature of the assets that will be held at amortised cost following the application of the IFRS 9, there will be no material change to the impairment recognised.

Hedge accounting

The Group does not currently apply hedge accounting.

The assessment above is preliminary and is subject to change as the Group continue to refine the new accounting policies, assumptions, judgements and estimates in respect of IFRS 9.

Presented below are disclosures required by the amendments to IFRS 4 for entities deferring the adoption of IFRS 9. These are provided to enable users to compare results with those entities that have adopted IFRS 9. As required by the amendment, the table shows the fair value of the Group's directly held financial assets at 31 December 2022, distinguishing those financial assets which have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) as defined by IFRS 9.

	Financial assets that pass the SPPI test		All other financial assets, net of derivative liabilities	
Financial assets on the consolidated statement of financial position	31 December 2022 £m	Movement in fair value during the year £m	31 December 2022 £m	Movement in fair value during the year £m
Equity securities and pooled investment funds	—	—	**70,127**	**(2,876)**
Loans	—	—	**3,233**	**(933)**
Debt securities	—	—	**62,821**	**(12,637)**
Derivative assets - net of derivative liabilities	—	—	**(1,335)**	**(3,983)**
Deposits	**21,401**	—	—	—
Accrued investment income and other debtors	**2,340**	—	—	—
Cash and cash equivalents	**4,884**	—	—	—
Total financial assets, net of derivative liabilities	**28,625**	—	**134,846**	**(20,429)**

	Financial assets that pass the SPPI test		All other financial assets, net of derivative liabilities	
Financial assets on the consolidated statement of financial position	31 December 2021 £m	Movement in fair value during the year £m	31 December 2021 £m	Movement in fair value during the year £m
Equity securities and pooled investment funds	—	—	74,069	9,298
Loans[i]	—	—	5,876	(172)
Debt securities	—	—	81,059	(2,732)
Derivative assets - net of derivative liabilities	—	—	684	(56)
Deposits	17,633	—	—	—
Accrued investment income and other debtors	2,647	—	—	—
Cash and cash equivalents	6,908	—	—	—
Total financial assets, net of derivative liabilities	27,188	—	161,688	6,338

i Loans have been restated for 31 December 2021 from "Financial assets that pass the SPPI test" to "All other financial assets net of derivative liabilities" following business model assessment carried out in 2022.

1.2.2.2 IFRS 17: Insurance Contracts

IFRS 17: Insurance Contracts (IFRS 17), effective from 1 January 2023, has been published by the IASB, and endorsed without amendment for application by UK listed groups by the UK Endorsement Board. IFRS 17 replaces the existing interim standard, IFRS 4: Insurance Contracts. The Group intends to adopt the new standard on its mandatory effective date, alongside the adoption of IFRS 9: Financial Instruments.

A key principle of IFRS 17 is that the profit from insurance contracts (and investment contracts with discretionary participation features) is recognised over the period over which service is provided to policyholders. In addition, while expected profits are deferred, expected losses are recognised immediately and, as a consequence, the accounting result depends on the level of aggregation at which the contracts are measured. Given this, IFRS 17 specifies how the insurance contracts should be divided into groups for the purpose of recognition and measurement.

1 Basis of preparation and significant accounting policies continued

1.2 New accounting pronouncements continued

Status of implementation project

The implementation of IFRS 17 continues to be a key priority for the Group and involves significant change to systems and processes. Key components of the programme include a large number of methodology and implementation judgements, delivery of new systems and controls and the production of comparative results. To deliver a programme of this size, a large number of resources, incorporating a wide range of skills and expertise, are required.

Project progress is tracked against key milestones and reported through internal governance, including to the Group Audit Committee, on an ongoing basis. Due to the complexity of the with-profits business and scale of change involved, delivery remains challenging but the programme has met key milestones and is preparing to report in accordance with the new standard in 2023. The focus over 2023 is the completion of the production of restated comparatives and ensuring the business is ready to migrate to the new systems, processes and internal controls in the timescales available.

Overview of IFRS 17

Contracts within the scope of IFRS 17

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

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

The definitions of insurance risk and discretionary participation features under IFRS 17 are unchanged from IFRS 4. Therefore the Group's judgements as to what constitutes significant insurance risk and significant discretionary participation features when determining whether contracts are within the scope of IFRS 17 are unchanged from the judgements that the Group made for IFRS 4.

Identifying contracts

The requirements for identifying contracts within the scope of IFRS 17 is not limited to determining only whether a contract falls into one of the three categories above but also requires the entity to assess whether contracts within the scope of IFRS 17 contain embedded derivatives, distinct investment components or obligations to provide distinct goods or services other than insurance contract services that must be separated out and accounted for under a different standard (with the remaining components accounted for under IFRS 17).

Level of aggregation

IFRS 17 requires contracts to be aggregated together into groups for measurement purposes. Contracts are grouped together:

- If they are subject to similar risks and managed together;
- If they were issued in the same calendar year; and
- According to whether at initial recognition they are expected to be loss making, profitable with no significant possibility of becoming loss making subsequently, or neither of these.

There are similar grouping requirements applied to reinsurance contracts held although, rather than being assessed by profitability, reinsurance contracts held are assessed according to whether at initial recognition their value to the Group is a net gain, a net loss with no significant possibility that the value becomes a net gain subsequently, or neither of these.

Upon transition the Group expects to aggregate the in-force contracts into about 70 groups.

Measurement – Overview

The carrying amount of a group of insurance contracts is the sum of the liability for incurred claims and the liability for remaining coverage. The liability for incurred claims contains fulfilment cash flows for incurred claims that have not yet been paid to policyholders and other relevant cash flows.

The liability for remaining coverage is the sum of:

- The present value of the probability-weighted expected future cash flows that are expected to arise from fulfilling the contracts. Cash flows are discounted using risk-free yield curves adjusted to reflect the liquidity characteristics of the contracts;
- An explicit risk adjustment that reflects the entity's own view of the additional amount it requires for bearing the uncertainty about the timing and amount of the cash flows that arises from non-financial risk; and
- A contractual service margin (CSM), which represents the unearned profit that will be recognised as the entity provides services under the contracts.

1 Basis of preparation and significant accounting policies continued

1.2 New accounting pronouncements continued

Measurement – future cash flows

Underlying items

IFRS 17 includes the concept of "underlying items", which are assets that determine some of the amounts payable to policyholders. Underlying items form part of the assessment of "direct participation features", which determines which CSM measurement model must be used and how the CSM is re-measured under the Variable Fee Approach (see section on CSM measurement below). Underlying items are also included in the assessment of whether there is mutualisation (see below) between groups of contracts.

Underlying items of the with-profits groups of insurance contracts

The underlying items are the assets backing the asset shares (which are the accumulated value of all items of income and outgo for with-profits policies) plus, where applicable, the assets backing enhancements that are expected to be added to asset shares in the future, such as profit from some of the non-profit business written in the With-Profits Fund.

Other underlying items in the With-Profits Fund

The With-Profits Fund includes assets that are expected to be utilised to pay amounts to current or future policyholders in addition to the provisions held in the groups of insurance contracts. The underlying items for these additional amounts are defined as:

- The entirety of the assets in the With-Profits Fund;
- Less: the underlying items of the with-profits groups of insurance contracts; and
- Less: the assets held to meet other liabilities of the With-Profits Fund, for example for non-profit contracts.

Mutualisation

In general, IFRS 17 only requires a liability to be held for the current policyholders at each valuation. However, in addition, IFRS 17 acknowledges the "mutualisation" feature of with-profits funds whereby the cash flows of some contracts may affect or be affected by the cash flows of other contracts. In recognition of this feature, IFRS 17 also permits a liability to be held that represents the share of the surplus assets in the With-Profits Fund attributable to current or future policyholders.

Future cash flows of the with-profits groups of insurance contracts – impact of mutualisation

Surpluses may arise from some with-profits contracts, for example if the amounts charged to policies exceed the costs they are intended to cover. These surpluses accrue to the With-Profits Fund and may be utilised to meet deficits arising on other with-profits contracts or to enhance the benefits payable to current or future policyholders. In order to recognise this feature of the With-Profits Fund, the liabilities for each with-profits group of insurance contracts includes the policyholders' share of the expected future surpluses/deficits, where the expected future surpluses/deficits are given by:

- The discounted value of the amounts that will be charged to policies;
- Less: the discounted value of future shareholder transfers, gross of tax;
- Less: the discounted value of other costs directly attributable to the group of insurance contracts

Future cash flows – additional amounts payable to current or future policyholders

The liability for the additional amounts payable to current or future policyholders will be a key judgement and is expected to be equal to around 90% of the fair value of the other underlying items in the With-Profits Fund. The fair value of these underlying items includes the fair value of the non-profit contracts in the With-Profits Fund.

Discount rates

The Group will determine the adjustment for illiquidity using either a top-down or a bottom-up approach. Under the top-down approach a yield curve that reflects the current market rates of return implicit in a fair value measurement of a reference portfolio of assets is adjusted to eliminate any factors that are not relevant to the insurance contracts, such as cash flow mismatching and credit risk. However, it is not required to adjust the yield curve for differences in the liquidity characteristics of the insurance contracts and the reference portfolio.

Judgement is required to choose an appropriate reference portfolio and to determine the element of the yield on the portfolio that is attributable to factors not relevant to the insurance contracts.

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

The Group intends to apply the top-down approach for annuities contracts and the bottom-up approach for all other contracts, including with-profits.

Measurement – risk adjustment for non-financial risk

Different approaches are expected to be used within the industry to estimate the risk adjustment for non-financial risk, including a confidence level technique or a cost of capital technique.

1 Basis of preparation and significant accounting policies continued

1.2 New accounting pronouncements continued

For all lines of business, the Group will use a confidence level technique under which a probability distribution of the expected present value of future cash flows from the contracts is estimated and the risk adjustment for non-financial risk is calculated as the excess of the value at risk at the target confidence level over the expected present value of the future cash flows.

The Group has set the compensation it requires for uncertainty arising from non-financial risk over the period of coverage equivalent to the 75th percentile over a 1-year time horizon. This is a key judgement.

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

Measurement – CSM

The CSM is subject to different measurement requirements depending on whether it relates to groups of contracts that are classified as being with or without direct participation features. Insurance and investment contracts with direct participation features are contracts for which the entity expects to pay the policyholder a substantial share of the returns on the underlying items.

For the Group's business all contracts that are in the scope of IFRS 17 and that are without direct participation features will apply the General Measurement Model (GMM). These primarily consist of the non-profit annuity and non-profit protection lines of business.

The contracts with direct participation features will use the Variable Fee Approach (VFA). These are expected to comprise the with-profits business, including PruFund, and unit-linked business.

A key difference between the GMM and VFA measurement models is that adjustments to the VFA CSM reflect prevailing market conditions, giving some alignment between the movements in asset and liability values. In contrast, adjustments to the GMM CSM are determined using prospective financial assumptions and discount rates that are fixed ("locked-in") at initial recognition.

Under the General Measurement Model the carrying amount of CSM is adjusted to reflect the following changes:

- Effect of new contracts added to the group of contracts;
- Interest accreted on the carrying amount of CSM, measured at the locked-in rate;
- Changes in cash flows arising from non-financial risk that relate to future service;
- Effect of any currency exchange differences on the CSM; and
- Recognition of insurance revenue for services provided in the year.

Under the Variable Fee Approach the CSM is adjusted to reflect the following changes:

- Effect of new contracts added to the group of contracts;
- Change in the entity's share of the fair value of underlying items;
- Changes in cash flows that relate to future service, including the effect of the time value of money and financial risk not arising from the underlying items;
- Effect of any currency exchange differences on the CSM; and
- Recognition of insurance revenue for services provided in the year.

Some of the adjustments to the CSM for the Variable Fee Approach listed above are determined by reference to changes in the "variable fee", which represents the value of the entity's interest in the contracts. For with-profits business, the variable fee is determined as the discounted value of future shareholder transfers, gross of tax, plus the shareholders' share of the expected future surpluses/deficits, where the expected future surpluses/deficits are given by:

- The discounted value of the amounts that will be charged to policies;
- Less: the discounted value of future shareholder transfers, gross of tax; and
- Less: the discounted value of other costs directly attributable to the group of insurance contracts.

The shareholders' share is expected to be around 10%, mirroring the key judgement that the policyholders' share is expected to be around 90%.

Insurance revenue for services provided in the year is recognised by reference to "coverage units", which represent the quantity of services provided. For non-profit annuities that are already in payment the coverage units are determined as the annual annuity benefit payable. This is consistent with the conclusion published on this topic by the IASB's Interpretation Committee (IFRIC) in 2022. For the majority of the with-profits contracts the coverage units are defined as the maximum of the benefit payable on death and the asset share, as this best represents the insurance and investment service being provided. The exception is with-profits annuity contracts in payment, for which the coverage units are defined as the annual annuity benefit payable.

1 Basis of preparation and significant accounting policies continued

1.2 New accounting pronouncements continued

For a profitable group of contracts the value of the CSM at inception equals the present value of the expected net inflow. This results in no income or expenses being recognised for the group of contracts at their initial recognition. Conversely, for a group of contracts that is loss making (or "onerous") at inception, the CSM is set to zero and the expected net outflow is immediately recognised as a loss. A loss component is established with value equal to the net outflow.

Transition to IFRS 17

IFRS 17 requires that the changes in accounting policies arising from adopting the new standard, at 1 January 2022, must be applied using a fully retrospective approach unless it is not practicable to do so. Under the fully retrospective approach the Group will:

- Identify, recognise and measure each group of insurance contracts, investment with DPF contracts and reinsurance contracts held as if IFRS 17 had always applied;
- Derecognise previously reported balances that would not have existed if IFRS 17 had always applied (including IFRS 4-related deferred acquisition costs, and the unallocated surplus of the With-Profits Fund); and
- Recognise any resulting net difference in equity, after allowing for any deferred tax adjustment.

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

The Group expects to apply the following approaches to valuing the CSM on transition to IFRS 17[i]:

Transition approach	Applied for
Fully Retrospective Approach	With-profits business written 2020-2021 Non-Profit protection in Poland written 2020-2021 Rothesay annuity reinsurance treaty[ii]
Modified Retrospective Approach	90:10 with-profits business written 2004-2019
Fair Value Approach	With-profits business written before 2004 All other contracts written up to 2021 All other reinsurance treaties incepted up to 2021

i The approach to be used for PruProtect business is still to be confirmed. As this business is fully reinsured, the impact of PruProtect contracts on shareholder equity at transition to IFRS 17 is not significant.

ii The Rothesay Part VII transfer in December 2021 and consequential update to the reinsurance treaty for the retained annuity business is deemed to constitute a derecognition event. Therefore, for IFRS 17 purposes, the inception date of the reinsurance contract is 15 December 2021 and so is transitioned under the Fully Retrospective Approach.

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

- The effects of retrospective application are not determinable because the information required has not been collected, or has not been collected with sufficient granularity, or is unavailable because of system migrations or other reasons.
- The fully retrospective approach requires assumptions about what the Group management's intentions would have been in previous periods that cannot be made without the use of hindsight. These include judgements about the compensation the Group requires for bearing non-financial risk in order to determine the risk adjustment. As the Group was established as a separate entity in 2019, the Group's current business management and assumptions are not appropriate prior to 2020 and choosing to use these or other assumptions would require the application of hindsight.
- Where the fully retrospective approach is impracticable for the valuation of a portfolio of insurance contracts written then it will also be impracticable for the valuation of associated reinsurance portfolio as measurement requires similar considerations.

Modified retrospective approach

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

Assessments at inception or on initial recognition

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

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

1 Basis of preparation and significant accounting policies continued

1.2 New accounting pronouncements continued

90:10 with-profits business written 2004-2019

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

- Amounts charged to policyholders (including charges deducted from the underlying items) before 1 January 2022.
- Amounts paid before 1 January 2022 that did not vary based on the underlying items.
- The change in the risk adjustment for non-financial risk caused by the release from risk before 1 January 2022, which will be estimated by reference to the release of risk for similar contracts that the Group issues at 1 January 2022.

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

If the calculation results in a loss component then the Group will adjust the loss component to nil and increase the liability for remaining coverage excluding the loss component by the same amount.

Fair value approach

Under the fair value approach, the CSM (or the loss component) at 1 January 2022 will be determined as the difference between the fair value of a group of contracts at that date and the fulfilment cash flows at that date. The Group will measure the fair value of the contracts as the sum of:

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

The key judgements are in the assumptions used to set the best estimate of the liability, such as longevity assumptions, assumed asset mix for annuities, and discount rates, and the compensation a market participant would require for taking on the obligation, in particular the level of capital assumed to be held, the assumed cost of holding the capital, and the level of compensation required to reflect the risk in relation to future shareholder transfers.

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

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

Comparison with IFRS 4

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

- For with-profits contracts that share in the profit arising in the main With-Profits fund, profits are recognised when bonuses are added to policies. As a substantial proportion of the total bonus is determined when claims are paid to policyholders, a considerable part of the profit is recognised when policies terminate.
- For non-profit contracts (notably annuities) a substantial proportion of the lifetime expected profit is recognised at policy inception reflecting the difference between the premiums received less costs incurred and the prudent liability established for the expected future cash flows.

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

Other differences in the measurement of the liabilities include:

- IFRS 17 requires that the discount rates include an illiquidity premium. The IFRS 4 discount rates for with-profits contracts in particular do not include an illiquidity premium. For annuity contracts, the IFRS 4 discount rates are similar to IFRS 17.
- IFRS 4 liabilities for non-profit contracts are determined using implicit prudence margins in the demographic and expense assumptions. In contrast IFRS 17 requires a separate risk adjustment for non-financial risks which may differ from the value of the IFRS 4 margins.
- Under IFRS 4, the unallocated surplus of the With-Profits Fund represents the excess of the fund's assets over policyholder liabilities that are yet to be appropriated between policyholders and shareholders with no allocation to equity. There is no unallocated surplus under IFRS 17 although IFRS 17 does allow a liability to be held for the policyholders' share of the surplus assets in the With-Profits Fund. Under IFRS 17 there will be equity for the first time relating to the With-Profits Fund.

1 Basis of preparation and significant accounting policies continued

1.2 New accounting pronouncements continued

Overall quantitative impact on the Group

The Group will apply IFRS 17 for the first time at 1 January 2023. As a result of the requirement to restate comparative information presented, the date of transition to IFRS 17 for the Group is 1 January 2022. The standard will, as detailed above, bring significant changes to the accounting for insurance and reinsurance contracts and is expected to have a material impact on the Group's consolidated financial statements in the period of initial application.

The Group has estimated the impact that the initial application of IFRS 17 will have on the consolidated financial statements at 31 December 2021/1 January 2022. The quantitative assessment is preliminary as not all of the IFRS 17 transition work is finalised, and the application of some elements of IFRS 17 to the Group's open with-profits business is complex. The final impact of adopting IFRS 17 may change as:

- the Group is continuing to refine the new accounting processes, methodology and internal controls in applying IFRS 17; and
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Group finalises its adoption of IFRS 17.

Although the quantitative assessment is preliminary, it may be reasonably estimated that on transition to IFRS 17 equity will increase by at least £1.5bn at 1 January 2022, from £5.3bn to £6.8bn.

Shareholder equity is expected to increase as the reduction in equity driven by the CSM established to defer previously recognised profits on the annuity portfolio is more than offset by the recognition as equity of part of the surplus assets in the With-Profits Fund. The equity in the With-Profits Fund represents the shareholders' assumed share of the surplus assets in the fund in accordance with the requirements of IFRS 17 and is not immediately available for distribution to shareholders. Transfers from the With-Profits Fund to shareholders will continue to be derived from the cost of bonuses (or equivalent) added to with-profits contracts.

The Group is currently unable to set an upper limit for the impact on equity at 1 January 2022 as there is insufficient certainty in the outcome of the judgements that remain, for with-profits business in particular.

Adjusted operating profit will continue to be the Group's non-GAAP alternative performance measure. The definition of adjusted operating profit is currently being refined for IFRS 17, to ensure that it continues to provide an accurate reflection of the Group's underlying business performance.

The Group will publish restated comparative information on adoption of IFRS 17 in the 2023 interim financial statements.

1.2.2.3 Other

In addition to the above, the following new accounting pronouncements have also been issued but are not yet effective or have not yet been adopted for use in the UK:

- Classification of Liabilities as Current or Non-current (Amendments to IFRS 1), issued in January 2020 and effective from 1 January 2023, although it is anticipated that the effective date will be pushed back to no earlier than 1 January 2024
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – (Amendments to IFRS 10 and IAS 28), issued in December 2015 and effective date pending completion of the research project on equity method accounting
- The Disclosure Initiative: Accounting Policy Requirements (Amendments to IAS 1), issued in February 2021 and effective from 1 January 2023
- Definition of Accounting Estimates (Amendments to IAS 8), issued in February 2021 and effective from 1 January 2023
- Deferred tax related to assets and liabilities arising from a single transaction (Amendments to IAS 12), issued in May 2021 and effective from 1 January 2023
- Lease Liability in a sale and leaseback (Amendments to IFRS 16), issued in September 2022 and effective from 1 January 2024.

The Group has assessed the impact of these pronouncements on the consolidated financial statements, none of which are expected to have material impact on the Group.

2 Group structure and products

2.1 Corporate transactions

2.1.1 Sandringham Financial Partners acquisition

On 6 January 2022, the Group, via M&G Group Regulated Entity Holding Company Limited (M&G REH), acquired a 100% holding in Clear View Assured Limited, the holding company for Sandringham Financial Partners Limited (Sandringham) for a purchase consideration of £73m.

Sandringham is part of M&G Wealth within our Retail and Savings segment and at acquisition brought to M&G a well-established national financial services advisory business with around 180 advisory partners working on behalf of over 10,000 clients and more than £2.4bn of assets under advice to complement our existing advisory business, The Advice Partnership.

There is a further deferred amount payable to former shareholders who are in the employment of Sandringham of £8.6m over 2 years from the date of acquisition provided the shareholders remain in service. This does not form part of the purchase consideration and will be accounted for as employment costs over the service period.

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

	£m
Total cash consideration	**73**
Fair value of net assets acquired:	
Accrued investment income and other debtors	**1**
Cash and cash equivalents	**4**
Total assets	**5**
Accruals, deferred income and other liabilities	**(3)**
Total liabilities	**(3)**
Acquired intangible assets:	
Trade name	**7**
Customer-related	**15**
Deferred tax on assets not on balance sheet	**(6)**
Goodwill	**55**

The goodwill of £55m represents the synergies to be achieved through the creation of a fully integrated M&G Wealth business to complement the Group's well established asset management offering.

The Sandringham trade name was recognised on acquisition at fair value of £6.7m. The valuation was based on the relief from royalty rates method and the key assumptions used in measuring the fair value were discount rate and royalty rate.

A customer-related intangible was also recognised at fair value of £14.6m. The valuation was based on the multi-period excess earning method and the key assumptions used in measuring the fair value were discount rate and net attrition.

Sandringham was acquired at the start of the reporting period. The revenue and loss before tax included in the consolidated income statement in respect of Sandringham was £26.7m and £9.9m respectively. The loss before tax includes the impact of deferred consideration accounted for as employment costs.

2.1.2 responsAbility acquisition

On 3 May 2022, the Group, via M&G FA Limited, acquired a 94.8% holding in responsAbility Investments AG (responsAbility).

responsAbility is a Swiss private asset manager which is a leader in impact investing focused on private debt and private equity across emerging markets, with £2.9bn of assets under management. Following completion of the acquisition responsAbility's 200 employees joined M&G, the business will remain headquartered in Zurich creating a new investment hub for M&G Investments. responsAbility will sit within the Asset Management segment of the business.

The purchase consideration was subject to an adjustment for net assets between the date of the Share Purchase Agreement and the acquisition date. The Group retained call options and the seller retained put options over the remaining holding where the exercise price was fixed at inception. For accounting purposes, at the balance sheet date, the Group has accounted for the transaction on the basis it controls 100% of responsAbility. A liability has been recognised in respect of the Group's obligation under the call option arrangement. The Group acquired the remaining shares in February 2023.

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

2 Group structure and products continued

2.1 Corporate transactions continued

	£m
Total cash consideration	**148**
Fair value of net assets acquired:	
Accrued investment income and other debtors	**41**
Cash and cash equivalents	**13**
Total assets	**54**
Accruals, deferred income and other liabilities	**(22)**
Total liabilities	**(22)**
Acquired intangible assets:	
Trade name	**9**
Customer-related	**36**
Deferred tax on assets not on balance sheet	**(8)**
Goodwill	**79**

The goodwill of £79m represents the benefits of the acquisition which introduces various revenue synergies including leveraging from the Group's capabilities to grow responsAbility's UK institutional presence and the EU bank distribution relationships outside Switzerland. Additionally, the acquisition includes revenue benefits from launching new thematic products from an ESG perspective.

The responsAbility trade name was recognised on acquisition at fair value of £9.3m. The valuation was based on the relief from royalty rates method and the key assumptions used in measuring the fair value were discount rate and royalty rate.

A customer-related intangible was also recognised at fair value of £36.3m. The valuation was based on the multi-period excess earning method and the key assumptions used in measuring the fair value were discount rate and net attrition.

The revenue and profit before tax included in the consolidated statement of comprehensive income since the date of acquisition was £22.7m and £0.4m respectively. The revenue and profit before tax for the year ended 31 December 2022 for responsAbility was £35.6m and £2.3m respectively.

2.1.3 TCF Fund Managers LLP acquisition

On 17 February 2022, the Group acquired the total membership interest of TCF Fund Managers LLP (TCF), a provider of model portfolio services for a purchase consideration of £17m. The acquisition of TCF, has enabled us to launch an M&G Wealth branded range of model portfolios in April 2022. From 5 September 2022 TCF has been renamed M&G Wealth Investments LLP.

The acquisition was structured as follows:

- 99.9999% of the membership interest was acquired by M&G Wealth Solutions Limited (M&G WSL), formerly called M&G Wealth Investments Limited, which is a wholly owned subsidiary of M&G REH;
- 0.0001% of the membership interest was acquired by Pru Limited, a wholly owned subsidiary of M&G Corporate Holding Limited (M&G CHL).

The purchase consideration comprised of £15m of cash consideration paid at completion and a deferred consideration of £2m paid on 7 November 2022 on the satisfactory completion of various activities linked to transition by the previous owners. The purpose of the deferred consideration was to ensure a smooth transition to M&G operations and not to retain services of the existing members over a longer duration.

The acquisition has been accounted for using the acquisition method. On acquisition goodwill of £16m and a customer-related intangible asset of £1m was recognised.

2.2 Insurance and investment products written by the Group’s insurance entities

A description of the main insurance and investment contracts written by the Group’s insurance entities is provided below.

The Group’s with-profits contracts are written in the With-Profits Fund in which policyholders share in the profit of the fund. Up until 1 April 2021 there were three with-profits sub-funds: the With-Profits Sub-Fund (WPSF), the Defined Charge Participating Sub-Fund (DCPSF) and the Scottish Amicable Insurance Fund (SAIF). On 1 April 2021 SAIF merged with WPSF and the assets and liabilities of SAIF were combined with those of the WPSF.

Shareholder-backed business represents all insurance and investment contracts in the Group other than contracts written in the With-Profits Fund. The profit on these contracts accrues directly to the Group's shareholders.

2.2.1 With-profits contracts

With-profits contracts provide returns to policyholders through bonuses that are smoothed to reduce the impact of volatility of the investment performance of the assets in the fund.

2 Group structure and products continued

2.2 Insurance and investment contracts written by the Group's insurance entities continued

2.2.1.1 Conventional and accumulating with-profits contracts written in WPSF and DCPSF

Conventional and accumulating with-profits policyholders receive their share of profit by way of regular and final bonuses.

Regular bonus rates are determined for each type of policy primarily by targeting the bonus level at a prudent proportion of the long-term expected future investment return on underlying assets, reduced as appropriate for each type of policy to allow for items such as expenses, charges, tax and shareholder transfers.

In normal investment conditions, the Group expects changes in regular bonus rates to be gradual over time. However, the Group retains the discretion whether or not to declare a regular bonus each year, and there is no limit on the amount by which regular bonus rates can change.

A final bonus which is normally declared annually, may be added when a claim is paid. The rates of final bonus usually vary by type of policy and by reference to the period, usually a year, in which the policy commences or each premium is paid. These rates are determined by reference to the asset shares of representative sample policies and are subject to smoothing.

Regular bonuses are typically declared once a year, and once credited are guaranteed in accordance with the terms of the particular product. Final bonus rates are guaranteed only until the next bonus declaration.

Contracts are predominantly written in the WPSF, where the shareholders are entitled to an amount up to one-ninth of the bonus declared, which is payable as a cash transfer from the With-Profits Fund.

For the business written in the DCPSF, the charges accrue to shareholders who also meet the corresponding expenses. Profits arising in the DCPSF are attributed wholly to DCPSF policyholders. The shareholders' profit arises as the difference between charges and expenses.

2.2.1.2 With-profits contracts with a PruFund investment option ("PruFund contracts")

These are a range of with-profits contracts offering policyholders a choice of investment profiles ("PruFund funds"). Unlike the with-profits contracts described above, no regular or final bonuses are declared. Instead, policyholders participate in profits by means of an increase in their investment, which grows in line with an Expected Growth Rate (EGR). The EGR is adjusted for significant market movements.

The EGR may be applied for each of the different PruFund funds within the range, varying depending on the individual asset mix of that fund. The applicable EGR, net of the relevant charges, is applied to calculate the 'smoothed unit value' of policyholder funds. The EGRs are reviewed and updated quarterly, with the smoothed unit value calculated daily. In normal investment conditions, the EGR is expected to reflect PAC's view of how the funds will perform over the longer term.

Policyholders are protected from some of the short-term ups and downs of direct investments by using an established smoothing process. Prescribed adjustments are made to the smoothed unit value if it moves outside a specified range relative to the value of the underlying assets.

PruFund contracts are predominantly written in the WPSF, where the shareholder is entitled to an amount up to one-ninth of the difference between the smoothed unit value on withdrawal and the initial investment. The DCPSF also contains PruFund contracts, and for these contracts the shareholders receive profits or losses arising from the difference between the charges and expenses on this business.

2.2.1.3 SAIF with-profits contracts

SAIF was a ring-fenced with-profits sub-fund which merged with WPSF on 1 April 2021. As SAIF was a closed sub-fund, no new business was written in SAIF, although regular premiums and top-ups were still being collected on in-force policies. The fund was solely for the benefit of policyholders of SAIF, and at the date of the merger, surplus assets of the SAIF fund were allocated to the SAIF policyholders, with the enhancement due to be paid through a terminal bonus at the point of claim. Shareholders have no entitlement to the profits of this fund.

The Group's main exposure to guaranteed annuity options arises through with-profits contacts originally written in SAIF. More detail on the provisions held in respect of guaranteed annuity options is provided in Note 11.1.1.

2.2.2 Unit-linked contracts

Unit-linked contracts are contracts where the value of the policy is linked to the value of underlying investments (such as collective investment schemes, internal investment pools or other property) or fluctuations in the value of underlying investments or indices. Investment risk associated with the product is primarily borne by the policyholder. Some unit-linked contracts provide an element of insurance coverage, such as a benefit payable on death in excess of the value of the units, and these contracts are classified as insurance contracts and accounted for under IFRS 4 (see Note 11).

Charges are deducted from the unit-linked funds for investment and administration services, and for certain contracts, insurance coverage. Benefits payable will depend on the price of the units prevailing at the time of surrender, death or the maturity of the product.

2 Group structure and products continued

2.2 Insurance and investment contracts written by the Group's insurance entities continued

2.2.3 Annuities

Annuities are contracts which offer policyholders a regular income over the policyholder's life, in exchange for an upfront premium, and may be immediate or deferred. For immediate annuities, the regular income starts immediately after the premium payment, but for deferred annuities, the regular income is delayed until a specified date in the future. There are various types of annuity contracts written across the Group: level, fixed increase, inflation-linked (referred to as "non-profit annuities") and with-profits annuities. Some non-profit annuities have been written in the With-Profits Fund, and profits relating to this business accrue to the With-Profits Fund.

- Level annuities: provide a regular (for example, monthly) fixed annuity payment over the policyholder's life.
- Fixed increase annuities: provide for a regular annuity payment which incorporates automatic increases in annuity payments by fixed amounts over the policyholder's life.
- Inflation-linked annuities: provide for a regular annuity payment to which an additional amount is added periodically based on the increase in an inflation index.
- With-profits annuities: are written in the With-Profits Fund. These combine the income features of annuity contracts with the investment smoothing features of with-profits products and enable policyholders to obtain exposure to investment return on the With-Profits Fund.

2.3 Changes in consolidation of collective investment and other vehicles

As part of the normal course of business the Group, primarily via the With-Profits Fund, invests and disinvests in a number of collective investment and other investment vehicles. The Group continually assess whether these investments meet the requirements of IFRS10 – Consolidated Financial Statements and apply the accounting policy explained in 1.5.1 in those assessments. In any given year the investment vehicles moving in and out of the scope of consolidation have a limited impact on the Group's financial statements. However, during the year ended 31 December 2022 a number of investment vehicles have been deconsolidated which have had more significant impacts.

There were four vehicles which were deconsolidated – M&G European Property Fund (MEP), Sky Fund I LP, Sky Fund V Onshore LP and Harben 2017-1 plc. Sky Fund I LP was disposed of by PAC and the other three entities were re-assessed for control following a dilution of their holdings and deconsolidated. In the case of MEP and Sky Fund V LP, the Group holdings are now treated as investments in associates at FVTPL. The main impacts of the deconsolidation of these entities is in Property, plant and equipment, Investment property, Loans and Subordinated liabilities and other borrowings.

3 Segmental analysis

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

3.1 Operating segments

The Group's operating segments are:

Asset Management

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

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

Retail and Savings

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

Wealth

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

3 Segmental analysis continued

3.1 Operating segments continued

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

Heritage

The Heritage business includes individual and corporate pensions, annuities, life, savings and investment products. The majority of the products in the Heritage business are closed to new clients but may accept further contributions from existing policyholders. The annuity contracts include: level annuities, which provide a fixed annuity payment; fixed increase annuities, which incorporate a periodic automatic fixed increase in annuity payments; and inflation-linked annuities, which incorporate a periodic increase based on a defined inflation index. Some inflation-linked annuities have minimum and/or maximum increases relative to the corresponding inflation index.

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

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

The Heritage business includes the closed SAIF business which participates in profits on a 100:0 basis with no shareholder profit transfers. Shareholders are entitled to asset management fees. This business is now included in PAC's main with-profits sub fund following the merger with the SAIF with-profits sub fund on 1 April 2021 as discussed in Note 2.2.1.3.

Other Retail and Savings

Our savings businesses based in Ireland (Prudential International Assurance plc) and Poland are included within Other Retail and Savings.

The Group's other reportable segment is:

Corporate Centre

Corporate Centre includes central corporate costs and debt costs.

3.2 Adjusted operating profit before tax methodology

Adjusted operating profit before tax is the Group’s non-GAAP alternative performance measure, which complements IFRS GAAP measures and is key to decision-making and the internal performance management of operating segments.

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

For the Group’s business written in the With-Profits Fund, adjusted operating profit before tax includes the statutory transfer to shareholders gross of attributable shareholder tax. Derivative instruments are held to mitigate the risk to the shareholder of lower future shareholder transfers, and can be separated into two types:

i. Cash flow hedges[6]: those instruments that are held to mitigate volatility in the Group’s IFRS results by being explicitly matched to the expected future shareholder transfers.

ii. Capital hedges: instruments that hedge the economic present value of shareholder transfers on a Solvency II basis, to optimise the capital position.

The realised gains or losses on the cash flow hedges are allocated to adjusted operating profit before tax in line with emergence of the corresponding shareholder transfer within IFRS profit. Any short-term temporary movements in the fair value of these instruments, not relating to the current year’s shareholder transfer are excluded from adjusted operating profit before tax. As the capital hedges do not explicitly hedge future IFRS profits, all movements in the fair value of these instruments are excluded from adjusted operating profit before tax.

For the Group's shareholder annuity products written by the Retail and Savings segment, adjusted operating profit before tax excludes the impact of short-term components of credit risk provisioning, the impact of credit risk experience variances over the period, and total fair value movement on surplus assets backing the shareholder annuity capital, that are not reflective of the longer-term performance of the business.

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

3 Segmental analysis continued

3.2 Adjusted operating profit before tax methodology continued

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

The key adjusting items between IFRS profit before tax and adjusted operating profit before tax are:

Short-term fluctuations in investment returns

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

i. Short-term temporary movements in the fair value of instruments held to mitigate equity risk in the with-profits shareholder transfer, including both cash flow and capital hedges.

ii. Total fair value movements on other capital hedges, which are held solely to optimise the Solvency II capital position.

iii. Total fair value movements on surplus assets backing the shareholder annuity capital, and the impact of short-term credit risk provisioning and experience variances over the period which are not reflective of the longer-term performance of the business, specifically:

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

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

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

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

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

Restructuring and other costs

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

Amortisation and impairment of intangible assets acquired in business combinations

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

3 Segmental analysis continued

3.3 Analysis of Group adjusted operating profit before tax by segment

	2022			
	Asset Management	Retail and Savings	Corporate Centre	Total
For the year ended 31 December	£m	£m	£m	£m
Fee based revenues[i]	1,051	295	—	1,346
Annuity margin	—	227	—	227
With-profits shareholder transfer net of hedging and other gains/(losses)[ii]	—	354	—	354
Adjusted operating income	1,051	876	—	1,927
Adjusted operating expenses	(763)	(295)	(107)	(1,165)
Other shareholder loss	(5)	(9)	(200)	(214)
Share of profit from joint ventures and associates[iii]	—	—	—	—
Adjusted operating profit attributable to non-controlling interests	(19)	—	—	(19)
Adjusted operating profit/(loss) before tax	264	572	(307)	529
Short-term fluctuations in investment returns[iv]	—	(2,484)	—	(2,484)
Amortisation and impairment of intangible assets acquired in business combinations	(8)	(27)	—	(35)
Restructuring and other costs[v]	(74)	(77)	4	(147)
IFRS profit/(loss) before tax and non-controlling interests attributable to equity holders before tax	182	(2,016)	(303)	(2,137)
IFRS profit before tax attributable to non-controlling interests[vi]	19	—	—	19
Profit/(loss) before tax attributable to equity holders	201	(2,016)	(303)	(2,118)

i Of the fee-based revenues, £306m (2021: £303m) relates to revenues that Asset Management earned from the Retail and Savings segment. Other presentational differences when compared to the fee income in Note 4 include the netting of certain items that have a nil profit impact in adjusted operating profit, and the inclusion of certain revenue presented elsewhere within the IFRS income statement.

ii The with-profits shareholder transfer is paid to the shareholder net of tax. The shareholder transfer amount is grossed up for tax purposes with regard to adjusted operating profit.

iii Excludes adjusted operating profit from joint ventures in the With-Profits Fund.

iv Market conditions have led to significant losses from short-term fluctuations in investment returns for the year ended 31 December 2022. These losses primarily comprise a £1,301m loss (2021: £99m loss) from fair value movements on surplus assets in the annuity portfolio and a £989m loss (2021: £103m loss) on interest rate swaps purchased to protect PAC's Solvency II capital position against falls in interest rates, both due to significant rising yields in the period. Additionally losses of £223m (2021: £39m) arose on gilts pledged as collateral. These losses were partly offset by a positive movement on the hedging instruments held to protect the future shareholder transfers from falling equity markets which moved to a £104m gain (2021: £248m loss) as a result of falls in the US and European equity markets.

v Restructuring and other costs excluded from adjusted operating profit includes costs that relate to the transformation of our business which are allocated to the shareholder. These differ to Restructuring costs included in the analysis of administrative and other expenses in Note 5 which include costs allocated to the Policyholder. In the year to 31 December 2022, restructuring and other costs includes £17m (2021: £48m) in respect of our future ways of working and associated changes to our office space, and £32m (2021: £45m) of costs in relation to the integration of M&G Wealth platform business. Included in the Corporate Centre is a reversal of impairment recognised in respect of our future ways of working of £6m (2021: £29m recognition of impairment) which is presented in impairment of property, plant and equipment in the analysis of administrative and other expenses in Note 5.

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

3 Segmental analysis continued

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

	2021			
	Asset Management	Retail and Savings	Corporate Centre	Total
For the year ended 31 December	£m	£m	£m	£m
Fee based revenues[i]	976	278	—	1,254
Annuity margin	—	369	—	369
With-profits shareholder transfer net of hedging and other gains/(losses)[ii]	—	268	—	268
Adjusted operating income	976	915	—	1,891
Adjusted operating expenses	(672)	(296)	(95)	(1,063)
Other shareholder profit/(loss)	17	41	(159)	(101)
Share of profit from joint ventures and associates[iii]	6	—	—	6
Adjusted operating profit attributable to non-controlling interests	(12)	—	—	(12)
Adjusted operating profit/(loss) before tax	315	660	(254)	721
Short-term fluctuations in investment returns[iv]	5	(542)	—	(537)
Profit on disposal of businesses and corporate transactions	51	(16)	—	35
Amortisation and impairment of intangible assets acquired in business combinations	(4)	—	—	(4)
Restructuring and other costs[v]	(51)	(67)	(28)	(146)
IFRS profit/(loss) before tax and non-controlling interests attributable to equity holders before tax	316	35	(282)	69
IFRS profit attributable to non-controlling interests[vi]	12	—	—	12
Profit/(loss) before tax attributable to equity holders	328	35	(282)	81

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

Each reportable segment reports adjusted operating income as its measure of revenue. Fee-based revenue represents asset management charges, transactional charges and annual management charges on unit-linked business. The annuity margin reflects the margin earned on annuity business and includes net earned premiums, claims and benefits paid, net investment return for assets backing the liabilities, net investment income for surplus assets backing the annuity capital, actuarial reserving changes, investment management expenses and administrative expenses. The with-profits shareholder transfer reflects the statutory transfer gross of attributable tax net of hedging gains or losses on cash flow hedges held to match those transfers.

Adjusted operating expenses includes shareholders operating expenses incurred outside of the annuity and with-profits portfolios. Other shareholder profit/(loss) includes non-recurring costs, movements in provisions that are an expense to the shareholder and shareholder investment return earned outside of the annuity portfolio.

4 Fee income

The following table disaggregates fee revenue by segment:

	2022	2021
For the year ended 31 December	£m	£m
Management fees	**870**	860
Rebates	**(24)**	(28)
Performance fees and carried interest	**41**	18
Total Asset Management fee income	**887**	850
Investment contracts without discretionary participation features	**42**	50
Platform fees	**31**	34
Advice fees	**77**	49
Total Retail and Savings fee income	**150**	133
Total fee income	**1,037**	983

5 Administrative and other expenses

For the year ended 31 December	2022 £m	Restated[i] 2021 £m
Staff and employment costs	**791**	731
Acquisition costs incurred:		
Insurance contracts and investment contracts with DPF	**132**	119
Other contracts	**15**	23
Acquisition costs deferred:		
Insurance contracts and investment contracts with DPF	**(10)**	(8)
Other contracts	**(6)**	(6)
Amortisation of deferred acquisition costs:		
Insurance contracts and investment contracts with DPF	**6**	6
Other contracts	**10**	7
Impairment of deferred acquisition costs	**1**	4
Depreciation of property, plant and equipment	**142**	123
Impairment of property, plant and equipment[ii]	**3**	102
Amortisation of intangible assets	**34**	25
Impairment of goodwill and intangible assets	**25**	—
Restructuring costs	**228**	193
Interest expense	**136**	161
Commission expense	**190**	200
Investment management fees	**134**	165
Property-related costs	**165**	192
Other expenses	**814**	766
Total administrative and other expenses	**2,810**	2,803

i Following a review of the Group's presentation of tax positions within consolidated investment funds, comparative amounts have been restated from those previously reported. The restatement has had no impact on profit for the year or net assets. See Note 1.1 for further information.

ii Includes impairment of certain property, plant and equipment held by the Group's infrastructure capital private equity vehicles of £11m (2021: £73m). Includes reversal of impairment recognised in respect of our future way of workings of £6m (2021: £29m recognition of impairment) included in 'restructuring and other costs' within the Segmental Analysis in Note 3.

In addition to the interest expense shown above of £136m (2021: £161m), the interest expense incurred in respect of subordinated liabilities for the year ended 31 December 2022 was £162m (2021: £160m). This is shown as finance costs in the consolidated income statement.

6 Tax

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

Following a review of the Group's presentation of tax positions within consolidated investment funds, comparative amounts have been restated from those previously reported throughout this tax note. The restatement has had no impact on the profit for the year or net assets. See Note 1.1 for further information.

For the year ended 31 December	2022 £m	Restated 2021 £m
The total tax (credit)/charge comprises:		
Current tax:		
Current year	**158**	427
Adjustments in respect of prior years	**(19)**	4
Total current tax	**139**	431
Deferred tax:		
Origination and reversal of temporary differences in the year	**(1,017)**	288
Adjustments in respect of prior years	**—**	(23)
Total deferred tax	**(1,017)**	265
Total tax (credit)/charge	**(878)**	696

6 Tax continued

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

The tax (credit)/charge above, comprising current and deferred tax, can be analysed as follows:

For the year ended 31 December	2022 £m	Restated 2021 £m
UK tax	**(1,062)**	528
Overseas tax	**184**	168
Total tax (credit)/charge	**(878)**	696

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

The loss before tax reflected in the consolidated income statement for the year ended 31 December 2022 of £(2,497)m (2021: profit before tax of £788m restated) comprises profit attributable to equity holders and pre-tax profit attributable to policyholders of unit-linked and with-profits funds and unallocated surplus of the With-Profits Fund. This is the formal measure of profit before tax under UK-adopted IAS but it is not the result attributable to equity holders.

This is principally because the corporate taxes of the Group include those on the income of consolidated with-profits and unit-linked funds that, through adjustments to benefits, are borne by policyholders. These amounts are required to be included in the tax charge of the Company under IAS 12. Consequently, this measure of profit before all taxes is not representative of pre-tax profits of the Group attributable to equity holders.

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

	2022			Restated 2021		
For the year ended 31 December	Equity holders £m	Policyholders £m	Total £m	Equity holders £m	Policyholders £m	Total £m
(Loss)/profit before tax	**(2,118)**	**(379)**	**(2,497)**	81	707	788
Tax credit/(charge)	**499**	**379**	**878**	11	(707)	(696)
(Loss)/profit after tax for the year	**(1,619)**	**—**	**(1,619)**	92	—	92

6 Tax continued

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

6.1.2 Tax reconciliation

For the year ended 31 December	2022 Equity holders £m	2022 Policyholders £m	2022 Total £m	Restated 2021 Equity holders £m	Restated 2021 Policyholders £m	Restated 2021 Total £m
(Loss)/profit before tax	**(2,118)**	**(379)**	**(2,497)**	81	707	788
Tax (credit)/charge based on the standard UK corporation tax rate of 19% (2021: 19%)	**(403)**	**(72)**	**(475)**	15	134	149
Impact of profits earned in jurisdictions with different statutory rates to the UK	**3**	**—**	**3**	2	—	2
(weighted average rate for equity holders is 19% (2021: 19%))						
Recurring items						
Different basis of taxation - policyholders	**—**	**(283)**	**(283)**	—	586	586
Deductions not allowable for tax purposes[i]	**30**	**—**	**30**	15	—	15
Income and gains not taxable or taxable at concessionary rates[ii]	**(8)**	**—**	**(8)**	(10)	—	(10)
Effects of results of joint ventures and associates[iii]	**—**	**—**	**—**	(1)	—	(1)
Changes in recognition of deferred tax and effect of unrecognised tax losses[iv]	**(7)**	**—**	**(7)**	(16)	—	(16)
Other	**1**	**—**	**1**	3	—	3
Non recurring items						
Adjustments in relation to prior periods[v]	**5**	**(24)**	**(19)**	(6)	(13)	(19)
Changes in local statutory tax rates or laws[vi]	**—**	**—**	**—**	(3)	—	(3)
Impairment of goodwill	**5**	**—**	**5**	—	—	—
Impact of deferred tax recognised at 25% on current year movements[vii]	**(125)**	**—**	**(125)**	—	—	—
Non-taxable income - MGSA acquisition[viii]	**—**	**—**	**—**	(10)	—	(10)
Tax (credit)/charge	**(499)**	**(379)**	**(878)**	(11)	707	696

i Of the £30m, £22m (2021: £3m) relates to the non-taxable adjustment in relation to a historic joint venture agreement in respect of long term assurance business. The remaining amount relates to expenses that are not deductible for tax purposes, primarily in the UK.

ii Of the 2022 amount of (£8m), (£7m) relates to non-taxable dividend income in the UK (2021: £nil). For 2021, the balance primarily relates to a non-taxable income arising on the reversal of provision that was not tax deductible in previous periods.

iii Profit before tax includes the Group's share of profits after tax from the joint ventures and associates. Therefore, the actual tax charge does not include tax arising from profit or loss of joint ventures and associates and is reflected as a reconciling item.

iv The total amount of £(7)m related to the remeasurement of DTA on capital losses carried forward (2021: £(3)m). The remaining tax benefit in 2021 of (£13m) related to the utilisation of capital losses on which no deferred tax asset was recognised.

v The equity holders impact of £5m (2021: (£6m)) relates to changes in estimates of prior year positions. The policyholder benefit of (£24m) primarily relates to an agreement reached with HMRC to amend the application of income allocation methodology within the life insurance business (2021: (£13m) primarily due to changes in estimates to deferred tax assets).

vi In June 2021, the standard rate of Corporation Tax in the UK was changed from 19% to 25% with effect from 1 April 2023. Accordingly, the UK deferred tax balances were revalued to reflect the change in rate.

vii Benefit arising on deferred tax movements in the period booked at the future rate of corporation tax in the UK of 25% compared to the current period rate of 19%.

viii Non-taxable income relates to the £51m income recognised on the acquisition of the additional 0.13% shareholding in MGSA.

The Group's profits are taxed at different rates depending on the country or territory in which the profits arise. The key applicable tax rate for 2022 is the UK Corporation tax rate of 19% as the majority of the Group's profits are earned and taxed in the UK.

6.1.3 Factors that may impact the future tax rate

Changes in tax laws and rates may affect recorded deferred tax assets and liabilities and our effective tax rate in the future. On 10 June 2021, the UK Government's proposal to increase the rate of UK corporation tax from 19% to 25% with effect from 1 April 2023 was enacted into UK law. In line with the rate increase, there will be an increase to our effective tax rate for periods from 2023 onwards. The majority of the Group's profits are generated in the UK. Taking into account recurring tax adjusting items, the underlying effective tax rate for equity holders' portion of profits is expected to be marginally higher than the statutory rate in the UK.

The Group has unused tax losses carried forward of £481m, primarily UK capital losses, on which no deferred tax is recognised. Should appropriate capital gains arise in future periods it will result in tax benefits thereby reducing the future effective tax rate in the relevant periods.

6 Tax continued

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

During late 2021, the Organisation for Economic Co-operation and Development (OECD) announced agreement had been reached on a sweeping overhaul of the international tax system and the G-20 leaders endorsed the plan during the Leaders' Summit. The plan follows a Two-Pillar framework which sets out the principles of a solution to tackle the tax challenges arising from an increasingly globalised and digital global economy. Pillar One addresses taxing rights and distribution of profits, and Pillar Two the imposition of a global minimum tax rate of 15% on large companies. For Pillar One purposes, the Group is not expected to be within the scope of the rules due to the exclusion for regulated financial services and/or beneath the scoping thresholds. For Pillar Two, there is no financial services exemption and the Group is above the size threshold (€750m of revenue) and will be in scope. It was originally announced the Pillar Two rules to be effective for 2023, however, this has been deferred until 2024. The Group generates its profits predominantly in the UK and the remainder mainly in jurisdictions with a tax rate higher than 15%. Whilst the Two-pillar framework is not expected to have a significant impact on the future effective tax rate, much will depend upon the framework to be finalised by the OECD, the enacted legislation, and the impact on the insurance and asset management industries, in particular, treatment of investment in fund structures and policyholder attributes. During the period, the Group were heavily engaged in the consultations with the UK Government through Industry bodies and this work is expected to continue in 2023. The Group is reviewing the current set of OECD rules, draft UK legislation, updates to the framework and awaiting the OECD's anticipated release of the final framework, as well as new legislation expected to be released by governments implementing this new tax regime and will assess the potential impact of new legislation during 2023.

6.1.4 Use of accounting estimates and judgements

The calculation of the Group's tax charge involves a degree of estimation and judgement. The recognition of a deferred tax asset is a key judgement in applying the Group's accounting policies and relies on an assessment of the probability of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning strategies.

Deferred tax assets are reviewed at each reporting date. In considering their recoverability, the Group assesses the likelihood of their being recovered within the expiry of losses and/or while operating as a going concern. This takes into account the future expected profit profile and business model of each relevant company or country, and any potential legislative restrictions on use. Short-term timing differences are generally recognised ahead of losses and other tax attributes as being likely to reverse more quickly.

There is also judgement involved in the level of provisioning for uncertain tax positions. These provisions cover a wide range of issues, only a fraction of which are expected to be subject to challenge by a tax authority at any point in time. The Group engages constructively and transparently with tax authorities with a view to early resolution of uncertain tax matters. Estimated positions are based on the probability of potential challenge within certain jurisdictions and the possible outcome based on relevant facts and circumstances. The judgements and estimates made to recognise and measure the effect of uncertain tax positions are reassessed whenever circumstances change or when there is new information that affects those judgements.

Not withstanding any origination and reversal of temporary differences in the year, the Group does not consider there to be a significant risk of a material adjustment in the next financial year to the deferred and current tax balances from either recognition and measurement of deferred tax assets or the level of provisioning for uncertain tax positions.

6.2 Deferred tax

Deferred tax assets and liabilities

Under IAS12, deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on tax rates (and laws) that have been enacted or are substantively enacted at the end of the reporting period. Deferred tax assets are recognised as recoverable only to the extent it is considered probable, based on all available evidence, that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted or tax losses utilised. Deferred tax assets and liabilities are only offset when there is both a legal right to set-off and an intention to settle on a net basis.

Deferred tax in the statement of financial position

The deferred tax balances, after netting, arise in the following parts of the Group:

	Deferred tax assets		Deferred tax liabilities	
	2022	2021	2022	Restated 2021
	£m	£m	£m	£m
UK	**594**	68	**(465)**	(960)
Overseas	**57**	51	**(315)**	(459)
As at 31 December	**651**	119	**(780)**	(1,419)

6 Tax continued

6.2 Deferred tax continued

6.2.1 Unrecognised deferred tax

Tax losses and temporary differences

At the end of the reporting period, the Group have unused tax losses of £481m (2021: £512m) and temporary differences of £nil (2021: £2m) for which no deferred tax asset is being recognised. The Group's unused tax losses primarily relate to capital losses in the UK of £472m (2021: £502m). No deferred tax asset is recognised on the unused tax losses of £481m as it is considered not probable that future taxable UK capital gains or other appropriate profits will be available against which they can be utilised. Under UK law, capital losses can be carried forward indefinitely.

Group investments in subsidiaries, branches and investments

Retained earnings of overseas subsidiaries are expected to be reinvested indefinitely or remitted to the UK free from further taxation by virtue of parent company exemptions on dividends from subsidiaries and on capital gains on disposal. Consequentially, the Group does not consider there to be any significant taxable temporary differences associated with investments in subsidiaries, branches, associates and joint arrangements.

6.3 Change in corporation tax rate

On 10 June 2021, the UK Government's proposal to increase the rate of UK corporation tax from 19% to 25% with effect from 1 April 2023 was enacted into UK law. Changes in tax laws and rates may affect recorded deferred tax assets and liabilities and our effective tax rate in the future. We expect that, in line with the rate increase, proposed, there will be an increase to our effective tax rate for periods from 2023 onwards.

7 Earnings per share

Basic earnings per share for the year ended 31 December 2022 was (66.0)p (2021: 3.3p) and diluted earnings per share was (66.0)p (2021: 3.2p). Basic earnings per share is based on the weighted average ordinary shares in issue after deducting treasury shares and shares held by the employee benefit trust. Diluted EPS is based on the potential future shares in issue resulting from exercise of options under the various share-based payment schemes in addition to the weighted average ordinary shares in issue. The weighted average ordinary shares in issue reflects the impact of the share buy-back during the year.

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

For the year ended 31 December	2022 £m	2021 £m
(Loss)/profit attributable to equity holders of the Company	**(1,632)**	83

	2022 Millions	2021 Millions
Weighted average number of ordinary shares outstanding	**2,474**	2,542
Dilutive effect of share options and awards	—	33
Weighted average number of diluted ordinary shares outstanding	**2,474**	2,575

	2022 Pence per share	2021 Pence per share
Basic (loss)/earnings per share	**(66.0)**	3.3
Diluted (loss)/earnings per share	**(66.0)**	3.2

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

8 Dividends

For the year ended 31 December	2022 Pence per share	2022 £m	2021 Pence per share	2021 £m
Dividends relating to reporting period:				
First interim dividend - Ordinary	**6.2**	**154**	6.1	156
Second interim dividend - Ordinary	**13.4**	**310**	12.2	311
Total	**19.6**	**464**	18.3	467
Dividends paid in reporting period:				
Prior year's second interim dividend - Ordinary	**12.2**	**311**	12.2	310
First interim dividend - Ordinary	**6.2**	**154**	6.1	156
Total		**465**		466

Subsequent to 31 December 2022, the Board has declared a second interim dividend for 2022 of 13.4 pence per ordinary share and, an estimated £310m in total. The dividend is expected to be paid on 27 April 2023 and will be recorded as an appropriation of retained earnings in the financial statements at the time that it is paid. The final dividend amount per ordinary share for the year ended 31 December 2022 is impacted by the share buy-back programme, see Note 10 for further details.

9 Defined benefit pension schemes

The Group operates three defined benefit pension schemes. The largest defined benefit scheme as at 31 December 2022 is the Prudential Staff Pension Scheme (PSPS), which accounts for 82% (2021: 80%) of the present value of the defined benefit pension obligation.

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

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

In contrast, the Group is able to access the surplus of SASPS and M&GGPS through an unconditional right of refund. Therefore, the surplus resulting from these schemes is recognised in full. As at 31 December 2022 the SASPS and M&GGPS schemes are in surplus based on the IAS 19 valuation. Under IAS 19, non-transferable insurance policies issued by a related party do not qualify as plan assets.

Therefore, as at 31 December 2021, investments in insurance policies issued by Prudential Pensions Limited, (a subsidiary of the Group, through which it invested in certain pooled funds), were deducted from the M&GGPS surplus, on an IAS 19 basis. However all holdings were divested during 2022 and this deduction is no longer required.

The SASPS net economic pension surplus is attributed 40% to the With-Profits Fund and 60% to the Group's shareholders.

9 Defined benefit pension schemes continued

The pension assets and liabilities for the defined benefit pension schemes are as follows:

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

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

i The economic basis reflects the position of the defined benefit schemes from the perspective of the pension schemes, adjusted for the effect of IFRIC 14 for the derecognition of PSPS's unrecognisable surplus and before adjusting for any non-qualifying assets.

	2021			
	PSPS	SASPS	M&GGPS	Total
As at 31 December	£m	£m	£m	£m
Fair value of plan assets	7,394	993	754	9,141
Present value of defined benefit obligation	(6,460)	(1,043)	(581)	(8,084)
Effect of restriction on surplus	(896)	—	—	(896)
Net economic pension surplus/(deficit)[i]	38	(50)	173	161
Eliminate group issued insurance policies	—	—	(207)	(207)
Net pension surplus/(deficit) attributable to the Group	38	(50)	(34)	(46)

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

10 Issued share capital and share premium

	2022		2021	
	Number of ordinary shares	Share capital	Number of ordinary shares	Share capital
As at 31 December		£m		£m
At 1 January	**2,599,906,866**	**130**	2,599,906,866	130
Shares cancelled following buy-back	**(225,194,745)**	**(11)**	—	—
At 31 December	**2,374,712,121**	**119**	2,599,906,866	130

Amounts recorded in share capital represent the nominal value of shares issued with any difference between proceeds received on issue of shares, net of issue costs, and the nominal value of shares issued being credited to the share premium account. The share premium reserve at 31 December 2022 was £370m (2021: £370m).

In March 2022, the Group commenced a share buy-back programme to purchase ordinary shares of 5 pence each up to a maximum consideration of £500m, and the programme concluded on 27 October 2022 for a total consideration, including expenses and stamp duty, of £503m. Shares with a nominal value of £11m were cancelled, with recognition of an £11m capital redemption reserve. As at 31 December 2022, ordinary shares with a nominal value of £47m were bought back but not cancelled with these shares being accounted for as a deduction to Shareholders equity within the Treasury shares reserve.

11 Policyholder liabilities, unallocated surplus and reinsurance

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

Note 2.2 describes the different types of insurance and investment contracts across the business. A description relating to the determination of the policyholder liabilities and the key assumptions for each component of business is set out below:

11.1.1 With-profits business

The With-Profits Fund mainly contains with-profits contracts but also contains some non-profit business (annuities, unit-linked, and term assurances). The liabilities of the With-Profits Fund are accounted for on a realistic basis in accordance with the requirements of FRS 27 Life Assurance. The basis is consistent with the rules for the determination of reserves on the realistic basis under the Solvency I capital regime. Though no longer in force for regulatory purposes, these rules continue to be applied to determine with-profits contract liabilities in accordance with IFRS 4 Insurance Contracts. In aggregate, the regime has the effect of placing a market-consistent value on the liabilities of with-profits contracts, which reflects the amounts expected to be paid based on the current value of investments held by the With-Profits Fund and current circumstances. In line with FRS 27 requirements, the non-profit annuities business within the With-Profits Fund is valued on the statutory basis, i.e. including margins for adverse deviations (as set out in 'Valuation of annuity contracts'). The with-profits liabilities are valued on a realistic basis and therefore allow for the future enhancements to the policyholders. Following this approach unadjusted would lead to an inconsistency in the net assets, as such, the present value of future profits from the relevant non-profit annuities is applied as an adjustment to the with-profit liabilities. Annually when the enhancements to asset shares are committed to, the value of the enhancements is transferred from the Unallocated surplus of the With-Profits Fund to with-profit liabilities.

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

i. A with-profits benefits reserve (WPBR)

ii. Future policy-related liabilities (FPRL)

The WPBR is primarily based on the retrospective calculation of accumulated asset shares with adjustments to reflect future policyholder benefits and other charges and expenses. Asset shares broadly reflect the policyholders' share of the With-Profits Fund assets attributable to their policies. For certain classes of business, the WPBR is instead calculated using a prospective bonus reserve valuation, valuing future claims and expenses using the expected future bonus rates.

The FPRL is comprised of other components of the liability including a market-consistent valuation of costs of guarantees, options and smoothing, less any related charges, and this amount is determined using stochastic modelling techniques.

Assumptions used for the realistic, market-consistent valuation of with-profits business typically do not contain margins, whereas those used for the valuation of other classes of business, for example, annuities, contain margins of prudence within the assumptions. The main assumptions used in the prospective elements of the with-profits policyholder liabilities are listed below:

- Assumptions relating to persistency and the take-up of options offered under certain with-profits contracts are set based on the results of the most recent experience analysis looking at the experience over recent years of the relevant business, and supplemented by expert judgement of the appropriate SMEs across the business;
- Management actions under which the fund is managed in different scenarios;
- Maintenance and, for some classes of business, termination expense assumptions are expressed as per policy amounts. They are set based on forecast expense levels, including an allowance for ongoing investment management expenses, and are allocated between entities and product groups in accordance with the Group's internal cost allocation model;
- Expense inflation assumptions are set consistent with the economic basis and based on the inflation swap spot curve;
- The contract liabilities for with-profits business also require assumptions for mortality. These are set based on the results of recent experience analysis. However, mortality experience over 2020 and 2021 was significantly higher than previous years' as a result of the COVID-19 pandemic. Therefore, no weight has been given to 2020 or 2021 experience in calibrating mortality assumptions;
- Future investment return assumptions are set at a risk-free rate equal to the spot yield on UK swaps. The volatility of investment returns are set with reference to implied volatility data on traded market instruments, where available, or on a best estimate basis where not.

Unallocated surplus

The unallocated surplus of the With-Profits Fund represents the excess of the fund's assets over policyholder liabilities on an IFRS basis that have yet to be appropriated between policyholders and shareholders. The unallocated surplus is recorded wholly as a liability with no allocation to equity. The annual excess/(shortfall) of income over expenditure of the With-Profits Fund, after declaration and attribution of the cost of bonuses to policyholders and shareholders, is transferred to/(from) the unallocated surplus each year through a charge/(credit) to the consolidated income statement. The balance retained in the unallocated surplus represents cumulative income arising on the with-profits business that has not been allocated to policyholders or shareholders.

11 Policyholder liabilities, unallocated surplus and reinsurance continued

11.1 Determination of insurance and investment contract liabilities for different components of business continued

With-profits options and guarantees

Certain policies written in the Group's With-Profits Fund give potentially valuable guarantees to policyholders, or options to change policy benefits which can be exercised at the policyholders' discretion. Most with-profits contracts give a guaranteed minimum payment on a specified date or range of dates or on death if before that date or dates. For pensions products, the specified date is the policyholder's chosen retirement date or a range of dates around that date. For endowment contracts, guarantees apply at the maturity date of the contract. For with-profits bonds it is often a specified anniversary of commencement, in some cases with further dates thereafter.

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

- For conventional with-profits contracts, including endowment assurance contracts and whole of-life assurance contracts, payouts are guaranteed at the sum assured together with any declared regular bonus;
- Conventional with-profits deferred annuity contracts have a basic annuity per annum to which bonuses are added. At maturity, the cash claim value will reflect the current cost of providing the deferred annuity. Regular bonuses when added to with-profits contracts usually increase the guaranteed amount;
- For unitised with-profits contracts and cash accumulation contracts the guaranteed payout is the initial investment (adjusted for any withdrawals, where appropriate), less charges, plus any regular bonuses declared. If benefits are taken at a date other than when the guarantee applies, a market value reduction may be applied to reflect the difference between the accumulated value of the units and the market value of the underlying assets;
- For certain unitised with-profits contracts and cash accumulation contracts, policyholders have the option to defer their retirement date when they reach maturity, and the terminal bonus granted at that point is guaranteed;
- For with-profits annuity contracts, there is a guaranteed minimum annuity payment below which benefit payments cannot fall over the lifetime of the policies;
- Certain pensions products have guaranteed annuity options at retirement, where the policyholder has the option to take the benefit in the form of an annuity at a guaranteed conversion rate.

Determination of bonuses

Profit recognition for traditional with-profits business written in the WPSF is in line with the declaration of bonuses. Determining discretionary bonuses for traditional types of with-profits business requires the PAC Board to apply significant judgement, including in particular the following:

- Determining what constitutes fair treatment of clients;
- Determining the process for the smoothing of investment returns;
- Determining at what level to set bonuses to ensure that they are competitive.

The overall rate of return on investments and the expectation of future investment returns are the most important influences in bonus rates, subject to the smoothing described below. The Group determines the assumptions to apply in respect of these factors, including the effects of reasonably likely changes in key assumptions, in the context of the overarching discretionary and smoothing framework that applies to its with-profits business.

The Group's approach, in applying significant judgement and discretion in relation to determining bonus rates, is consistent with the Principles and Practices of Financial Management (PPFM) that explains how the With-Profits Fund is managed. In accordance with industry-wide regulatory requirements, the PAC Board has appointed:

- A Chief Actuary who provides the PAC Board with all actuarial advice.
- A With-Profits Actuary whose specific duty is to advise the PAC Board on the reasonableness and proportionality of the manner in which its discretion has been exercised in applying the PPFM and the manner in which any conflicting interests have been addressed.
- A With-Profits Committee of independent individuals, which assesses the degree of compliance with the PPFM and the manner in which conflicting interests and rights have been addressed.

In determining bonus rates for the with-profits policies, smoothing is applied to the allocation of the overall earnings of the With-Profits Fund, of which the investment return is a significant element. The degree of smoothing is illustrated numerically in the following table, which allows comparison of the relatively "smoothed" level of policyholder bonuses declared as part of the surplus for distribution with the more volatile movement in investment return and other items of income and expenditure of the WPSF.

11 Policyholder liabilities, unallocated surplus and reinsurance continued

11.1 Determination of insurance and investment contract liabilities for different components of business continued

For the year ended 31 December	2022 £m	2021 £m
Net income of the WPSF:		
Investment return	**(7,239)**	11,875
Claims incurred	**(10,225)**	(10,728)
Movement in policyholder liabilities	**10,758**	(1,321)
Add back policyholder bonus for the year (as shown below)	**3,494**	2,906
Claims incurred and movement in policyholder liabilities (including change for provision for asset shares and excluding policyholder bonuses)	**4,027**	(9,143)
Earned premiums, net of reinsurance	**6,270**	4,503
Other income	**2**	26
Acquisition costs and other expenditure	**(1,164)**	(2,436)
Share of profits from investment joint ventures	**38**	76
Tax credit/(charge)	**232**	(645)
Net income of the fund before movement in unallocated surplus of the With-Profits Fund	**2,166**	4,256
Movement in unallocated surplus of the With-Profits Fund	**1,689**	(1,052)
Surplus for distribution for the year	**3,855**	3,204
Surplus for distribution for the year allocated as follows:		
Policyholders' bonus (as shown above)	**3,494**	2,906
Shareholders' transfers[i]	**361**	298
Surplus for distribution for the year	**3,855**	3,204

i Shareholder transfers for most business in the WPSF are one ninth of the cost of bonus declared to policyholders. In 2021, the SAIF with-profits sub-fund was merged with the WPSF. Shareholders have no entitlement to profits from the bonus relating to ex-SAIF policyholders of £220m for the year ended 31 December 2022 (2021: £226m), the value of which is included in the total Policyholders' bonus shown in the table above. Refer to Note 2.2 for further details.

11.1.2 Unit-linked business

For unit-linked contracts, the attaching liability reflects the unit value obligation (using actuarial funding where relevant) and, in the case of contracts with significant insurance risk which are therefore classified as insurance contracts, allowance for expense, persistency, and mortality risk. The latter component, calculated using a discounted cashflow approach (non-unit reserves), is determined by applying mortality assumptions on a basis that is appropriate for the policyholder profile and including a margin for prudence in the mortality, persistency, and expense assumptions. To calculate the non-unit reserves for unit-linked insurance contracts, assumptions are also set for the unit growth rate and the valuation interest rate. The valuation interest rate is derived from the yields of assets representative of the returns that will be earned on the assets backing these liabilities.

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

Deferred acquisition costs and deferred income are recognised in line with the level of service provision.

Certain parts of the unit-linked business are reinsured externally by way of fund reinsurance. Where this is the case, the reinsurance liabilities in respect of these reinsurance arrangements is valued in a manner consistent with the valuation of the underlying assets. Certain parts of the unit-linked business are reinsured externally by reinsuring specific risk benefits. Where this is the case, the reinsurance asset in respect of these reinsurance arrangements is valued in a manner consistent with the valuation of the underlying liabilities.

11.1.3 Annuities and other long-term business

The majority of the policyholder liabilities in the "annuities and other long-term business" component relate to annuity contracts. The annuity liabilities are calculated as the expected value of future annuity payments and expenses, discounted by a valuation interest rate, having prudent regard to the assumptions used. The valuation methodology for the reinsurance is based on a deterministic cashflow model, in line with the underlying portfolio.

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

Mortality

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

11 Policyholder liabilities, unallocated surplus and reinsurance continued

11.1 Determination of insurance and investment contract liabilities for different components of business continued

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

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

For current mortality, while no weight has been given to the most recent years of experience, the Group's longevity assumptions have been updated to reflect enhancements made to aspects of the underlying data and the corresponding modelling approach. This has resulted in a small weakening.

The mortality improvements observed in recent population data have been considered as part of the judgement exercised in setting the mortality basis for 2022. New mortality projection models are released annually by the Continuous Mortality Investigation (CMI). The CMI tables used are adjusted as appropriate each year to reflect anticipated mortality improvements, including an appropriate margin on an IFRS basis relative to the best estimate assumption used for Solvency II.

An external panel process with a range of experts from different disciplines (such as Public Health & Social Policy, General Practice and Oncology) was undertaken in 2022 which formed part of a review of the drivers of future mortality improvements. Enhancements were also made to the approach to determining how the Group's own portfolio experience could differ from the population as whole. Combining these resulted in more pessimism (i.e. lower levels of future improvements) than the previous year and resulted in a release of reserves. The 2022 basis is expressed in terms of CMI 2020 in comparison to the 2021 basis, which was expressed relative to CMI 2019. The mortality improvement assumptions used are summarised in the table below, with other assumptions reflecting the core CMI projection.

Period ended	Model version[i, iv]	Long-term improvement rate[ii]	Smoothing parameter (Sk)[iii]
31 December 2022	**CMI 2020**	**For males: 2.10% pa** **For females: 2.10% pa**	**For males: 7.25** **For females: 7.75**
31 December 2021	CMI 2019	For males: 2.25% pa For females: 2.00% pa	For males: 7.50 For females: 8.00

i An 'A' parameter in the model to reflect socio-economic differences between the portfolio and population experience is also used. This adjusts initial mortality improvement rates and was 0.45% at 31 December 2021. Under the revised methodology, this parameter varies by age and gender and is reduced at all ages relative to 31 December 2021.

ii As at 31 December 2022 and 31 December 2021, the long-term improvement rates shown reflected a 0.5% increase to all future improvement rates relative to the best estimate used under Solvency II as a margin for prudence.

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

iv The tapering of improvements to zero is set to occur between ages 90-110 at 31 December 2022, which is a change from 85 - 110 at 31 December 2021.

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

Valuation interest rates

Valuation interest rates used to discount the liabilities are based on the yields as at the valuation date on the assets backing the policyholder liabilities. For fixed interest securities, the internal rate of return of the assets backing the liabilities is used. Investment properties are valued using the redemption yield. An adjustment is made to the yield on non risk-free fixed interest securities and property to reflect credit risk. The credit risk allowance comprises an amount for long-term best estimate defaults and downgrades, a provision for credit risk premium, and where appropriate an additional short-term overlay to reflect prospective outlook in respect of experience over the coming period, including any uncertainty in outlook. Following adverse downgrade experience over the latter half of 2022, and deteriorating future outlook for the UK economy, the short-term allowance has been increased for reporting as at 31 December 2022. The table below shows the credit allowance relative to the overall spread over swaps.

Period ended 31 December 2022	Shareholder-backed annuities	Annuities in With-Profits Fund
Credit default allowance	**47 bps**	**46 bps**
Overall valuation interest rate	**5.48%**	**5.32%**
Credit allowance as proportion of spreadover swaps	**20.3%**	**21.5%**
Net of reinsurance credit reserve (£m)	**434**	**198**

11 Policyholder liabilities, unallocated surplus and reinsurance continued

11.1 Determination of insurance and investment contract liabilities for different components of business continued

Period ended 31 December 2021	Shareholder-backed annuities	Annuities in With-Profits Fund
Credit default allowance	44 bps	40 bps
Overall valuation interest rate	2.23%	2.03%
Credit allowance as proportion of spread over swaps	25.0%	27.7%
Net of reinsurance credit reserve (£m)	727	312

The decrease in net of reinsurance reserve is primarily due to the increase in yields since 31 December 2021. The allowance for credit risk within the valuation interest rate is of particular importance when determining policyholder liabilities.

Expenses

Maintenance expense assumptions are expressed as per policy amounts. They are set based on forecast expense levels, including an allowance for ongoing investment management expenses and are allocated between entities and product groups in accordance with the Group's internal cost allocation model. A margin for prudence is added to this amount. Expense inflation assumptions are set consistent with the economic basis and based on the inflation swap spot curve. These assumptions therefore take recent increases in inflation into account, and allow for the market-driven long-term view of future inflation.

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

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

11 Policyholder liabilities, unallocated surplus and reinsurance continued

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

		Shareholder-backed funds and subsidiaries				
	With-profits sub-funds[i]	Unit-linked liabilities	Annuity and other long-term business	Total	Reinsurance[ii,vi]	Net total
	£m	£m	£m	£m	£m	£m
As at 1 January 2021	136,387	20,455	30,599	187,441	(11,761)	175,680
Comprising:						
Insurance contract liabilities	41,172	4,987	30,491	76,650		
Investment contract liabilities with DPF	79,592	—	31	79,623		
Investment contract liabilities without DPF	2	15,468	77	15,547		
Unallocated surplus of the With-Profits Fund	15,621	—	—	15,621		
Net Flows:						
Premiums	4,505	1,471	157	6,133		
Surrenders	(6,480)	(3,231)	(91)	(9,802)		
Maturities/deaths	(4,334)	(628)	(1,979)	(6,941)		
Net flows	(6,309)	(2,388)	(1,913)	(10,610)		
Corporate transactions[iii]	—	598	(9,558)	(8,960)		
Shareholders' transfers post-tax	(298)	—	—	(298)		
Switches	(31)	31	—	—		
Assumption changes[iv]	—	—	(347)	(347)		
Investment-related items and other movements	8,960	1,173	350	10,483		
Foreign exchange differences	(80)	(56)	—	(136)		
As at 31 December 2021/As at 1 January 2022	**138,629**	**19,813**	**19,131**	**177,573**	**(1,669)**	**175,904**
Comprising:						
Insurance contract liabilities	**39,203**	**4,978**	**19,042**	**63,223**		
Investment contract liabilities with DPF	**82,700**	**—**	**43**	**82,743**		
Investment contract liabilities without DPF	**3**	**14,835**	**46**	**14,884**		
Unallocated surplus of the With-Profits Fund	**16,723**	**—**	**—**	**16,723**		
Net Flows:						
Premiums	**6,270**	**877**	**148**	**7,295**		
Surrenders	**(6,256)**	**(2,273)**	**(91)**	**(8,620)**		
Maturities/deaths	**(4,237)**	**(517)**	**(1,221)**	**(5,975)**		
Net flows	**(4,223)**	**(1,913)**	**(1,164)**	**(7,300)**		
Corporate transactions[iii]	**—**	**—**	**—**	**—**		
Shareholders' transfers post-tax	**(361)**	**—**	**—**	**(361)**		
Switches	**(44)**	**44**	**—**	**—**		
Assumption changes[iv]	**—**	**—**	**(275)**	**(275)**		
Investment-related items and other movements[v]	**(8,116)**	**(1,856)**	**(4,312)**	**(14,284)**		
Foreign exchange differences	**86**	**26**	**1**	**113**		
As at 31 December 2022	**125,971**	**16,114**	**13,381**	**155,466**	**(944)**	**154,522**
Comprising:						
Insurance contract liabilities	**32,299**	**4,214**	**13,292**	**49,805**		
Investment contract liabilities with DPF	**78,539**	**—**	**55**	**78,594**		
Investment contract liabilities without DPF	**3**	**11,900**	**34**	**11,937**		
Unallocated surplus of the With-Profits Fund	**15,130**	**—**	**—**	**15,130**		

i Includes the WPSF, the DCPSF and the SAIF, including the non-profit business written within these funds. On 1 April 2021 the closed SAIF fund merged with PAC's main WPSF and the assets and liabilities of SAIF combined with those of the WPSF.

ii Reinsurance at 31 December 2022 includes Reinsurance assets of £1,186m net of longevity swap liabilities of £242m (31 December 2021: £174m) included in Accruals, deferred income and other liabilities on the consolidated statement of financial position and in Note 13, but previously presented in Reinsurance assets. For the comparative periods all reinsurance is presented in Reinsurance assets.

iii Corporate transactions in 2021 relates to the impact of the Part VII transfer of annuity business to Rothesay Life PLC which decreased annuity and other long-term business by £9,558m and reduced the reinsurance asset by £9,558m, and the acquisition of MGSA which increased unit-linked liabilities by £598m.

iv Refer to breakdown of assumption changes below.

v Reduction over 2022 primarily reflects the impact of adverse market movements over the year, in particular the significant rise in interest rates.

vi The reduction over 2022 is driven by the same factors as the underlying liabilities, namely the rise in interest rates and weakening of the annuitant mortality basis.

11 Policyholder liabilities, unallocated surplus and reinsurance continued

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

The tables below set out the impact of assumption changes on gross policyholder liabilities over the current and previous reporting period. The impact on the With-Profits Fund liabilities is offset by a corresponding reduction in the unallocated surplus of the With-Profits Fund and is therefore reported as £nil in the table above.

Assumption changes impact on shareholder-backed business	2022 £m	2021 £m
Longevity[i]	**(292)**	(320)
Expenses (including investment management expenses)	**17**	(8)
Other[ii]	**—**	(19)
Total	**(275)**	(347)

Assumption changes impact on With-profits Fund (offset by opposite movement in unallocated surplus)	2022 £m	2021 £m
Longevity[i]	**(278)**	(92)
Persistency	**99**	116
Expenses (including investment management expenses)	**210**	(66)
Other[ii]	**17**	(8)
Total	**48**	(50)

i The net of reinsurance impacts of longevity assumption changes, as set out in the Business and Financial review, are £(193)m in 2022 and £(125)m in 2021.

ii 'Other' category includes non-annuitant mortality, morbidity, and judgemental assumption changes in respect of the long-term view of credit risk. Any impact relating to changes in those components of the credit default allowance that are not subjective but are purely market-driven are allocated to 'investment-related items and other movements'.

The impact of longevity assumption updates over the reporting period reflects the weakening of the basis for shareholder and policyholder backed annuity business, including in respect of lower future improvements in mortality. Persistency assumptions were also updated for the year ended 31 December 2022 for a number of with-profits product lines in order to reflect emerging experience. The impact in respect of expense assumption changes predominately reflects the impact of higher salary and cost inflation. The 'other' category includes the impact of the increase in the long-term subjective (non-market driven) components of the credit default allowance.

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

11 Policyholder liabilities, unallocated surplus and reinsurance continued

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

	Insurance contracts £m	Investment Contracts[i] £m	Unallocated surplus of the With-Profits Fund £m	Reinsurers' Share[ii] £m
As at 1 January 2021	76,650	95,170	15,621	(11,761)
Additions arising on acquisitions[iii]	—	598	—	—
Income and expense included in the income statement[iv]	(13,356)	3,556	1,052	10,088
Other movements including amounts included in other comprehensive income[v]	5	(1,640)	2	6
Foreign exchange translation differences	(76)	(57)	48	(2)
As at 31 December 2021/As at 1 January 2022	**63,223**	**97,627**	**16,723**	**(1,669)**
Income and expense included in the income statement	**(13,537)**	**(5,633)**	**(1,689)**	**735**
Other movements including amounts included in other comprehensive income[v]	**116**	**(1,493)**	**(2)**	**(15)**
Foreign exchange translation differences	**3**	**30**	**98**	**5**
As at 31 December 2022	**49,805**	**90,531**	**15,130**	**(944)**

i This comprises investment contracts with discretionary participation features of £78,594m as at 31 December 2022 (2021: £82,743m) and investment contracts without discretionary participation features of £11,937m as at 31 December 2022 (2021: £14,884m).

ii Includes reinsurers' share of claims outstanding of £137m as at 31 December 2022 (2021: £143m). Reinsurance at 31 December 2022 includes Reinsurance Assets of £1,186m net of longevity swap liabilities of £242m included in Accruals, deferred income and other liabilities on the consolidated statement of financial position and in Note 13. For the comparative periods all reinsurance is presented in Reinsurance Assets.

iii Additions arising on acquisitions for the year to 31 December 2021 relate to the acquisition of MGSA which increased unit-linked liabilities by £598m.

iv Income and expense included in the income statement in 2021 includes the impact of the Part VII transfer of annuity business to Rothesay Life PLC.

v Other movements including amounts included in other comprehensive income include premiums received and claims paid on investment contracts without discretionary participating features, which are taken directly to the consolidated statement of financial position in accordance with IAS 39; changes in the unallocated surplus of the With-Profits Fund resulting from actuarial gains and losses on the Group's defined benefit pension schemes, which are recognised directly in other comprehensive income and balance sheet reallocations. In 2022, this also reflects the divestment of insurance policies in PPL previously held by the M&G Group Pension scheme. Refer to Note 9 for further details.

The below tables show the "Benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance" as shown in the consolidated income statement. "Benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance" comprises of the movement charged to the consolidated income statement presented in the table above, and the benefits and claims paid over the period, net of amounts attributable to reinsurers.

	2022		
For the year ended 31 December	Policyholder liabilities[i] £m	Unallocated surplus of the With-Profits Fund £m	Reinsurance asset £m
Movement in policyholder liabilities and unallocated surplus of the With-Profits Fund included in consolidated income statement	**19,170**	**1,689**	**—**
Movement in reinsurance asset included in consolidated income statement	**—**	**—**	**(735)**
Benefits and claims paid	**(12,183)**	**—**	**—**
Benefits and claims attributable to external reinsurers	**—**	**—**	**494**
Benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance, as shown in consolidated income statement	**6,987**	**1,689**	**(241)**

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

	2021		
For the year ended 31 December	Policyholder liabilities[i] £m	Unallocated surplus of the With-Profits Fund £m	Reinsurance asset £m
Movement in policyholder liabilities and unallocated surplus of the With-Profits Fund included in consolidated income statement	9,807	(1,052)	—
Movement in reinsurance asset included in consolidated income statement	—	—	(10,088)
Benefits and claims paid	(13,358)	—	—
Benefits and claims attributable to external reinsurers	—	—	1,608
Benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance as shown in consolidated income statement	(3,551)	(1,052)	(8,480)

12 Subordinated liabilities and other borrowings

As at 31 December	2022 £m	2021 £m
Subordinated liabilities	**3,729**	3,706
Operational borrowings	**50**	107
Borrowings attributable to With-Profits Fund	**3,758**	5,117
Total subordinated liabilities and other borrowings	**7,537**	8,930

12.1 Subordinated liabilities

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

	2022		2021	
As at 31 December	Principal amount	Carrying value £m	Principal amount	Carrying value £m
5.625% sterling fixed rate due 20 October 2051	**£750m**	**839**	£750m	848
6.25% sterling fixed rate due 20 October 2068	**£500m**	**604**	£500m	606
6.50% US dollar fixed rate due 20 October 2048	**$500m**	**466**	$500m	423
6.34% sterling fixed rate due 19 December 2063	**£700m**	**845**	£700m	849
5.56% sterling fixed rate due 20 July 2055	**£600m**	**672**	£600m	676
3.875% sterling fixed rate due 20 July 2049	**£300m**	**303**	£300m	304
Total subordinated liabilities		**3,729**		3,706

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

A description of the key features of each of the Group's subordinated notes as at 31 December 2022 is as follows:

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

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

As at 31 December 2022, the principal amount of all subordinated liabilities is expected to be settled after more than 12 months and accrued interest of £43m (2021: £42m) is expected to be settled within 12 months.

12 Subordinated liabilities and other borrowings continued

12.1 Subordinated liabilities continued

12.1.1 Movement in subordinated liabilities

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

	2022 £m	2021 £m
At 1 January	**3,706**	3,729
Amortisation	**(28)**	(27)
Foreign exchange movements	**51**	4
At 31 December	**3,729**	3,706

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

13 Accruals, deferred income and other liabilities

As at 31 December	2022 £m	Restated[i] 2021 £m
Outstanding purchases of investment securities	**4,607**	3,836
Accruals and deferred income	**1,338**	1,469
Deferred consideration	**246**	403
Deposits received from reinsurers	**146**	299
Creditors arising from insurance operations	**189**	156
Interest payable	**80**	60
Creation of units awaiting settlement	**32**	52
Property related creditors	**17**	15
Reinsurance liabilities[ii]	**242**	—
Other	**509**	376
Total accruals, deferred income and other liabilities	**7,406**	6,666
Analysed as:		
Expected to be settled within one year	**6,920**	6,116
Expected to be settled after one year	**486**	550
Total accruals, deferred income and other liabilities	**7,406**	6,666

i Following a review of the Group's presentation of tax positions within consolidated investment funds, comparative amounts have been restated from those previously reported. The restatement has had no impact on profit for the year or net assets. See Note 1.1 for further information.

ii Reinsurance liabilities at 31 December 2022 relate to longevity swap liabilities of £242m (31 December 2021: £174m) previously held in Reinsurance assets on the consolidated statement of financial position and in Note 11. For the comparative periods all reinsurance is presented in Reinsurance assets.

14 Fair value methodology

14.1 Determination of fair value hierarchy

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

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

Level 1 - quoted prices (unadjusted) in active markets for identical assets and liabilities

Level 1 principally includes exchange-listed equities, mutual funds with quoted prices, exchange-traded derivatives such as futures and options, and national government bonds, unless there is evidence that trading in a given instrument is so infrequent that the market could not be considered active. It also includes other financial instruments where there is clear evidence that the valuation is based on a traded price in an active market.

14 Fair value methodology continued

14.1 Determination of fair value hierarchy continued

Level 2 - inputs other than quoted prices included within level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 2 principally includes corporate bonds and other national and non-national government debt securities which are valued using observable inputs, together with over-the-counter derivatives such as forward exchange contracts and non-quoted investment funds valued with observable inputs. It also includes investment contract liabilities without DPF that are valued using observable inputs.

Level 3 - significant inputs for the asset or liability are not based on observable market data (unobservable inputs)

Level 3 principally includes investments in private equity funds, directly held investment properties and investments in property funds which are exposed to bespoke properties or risks and investments which are internally valued or subject to a significant number of unobservable assumptions. It also includes debt securities which are rarely traded or traded only in privately negotiated transactions and hence where it is difficult to assert that their valuations have been based on observable market data.

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

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

	2022			
	Level 1	Level 2	Level 3	Total
As at 31 December	£m	£m	£m	£m
With-profits:				
Investment property	—	—	15,132	15,132
Equity securities and pooled investment funds	40,155	5,322	13,087	58,564
Loans	—	137	145	282
Debt securities	13,685	26,380	4,725	44,790
Derivative assets	52	2,350	1	2,403
Total with-profits	53,892	34,189	33,090	121,171
Unit-linked:				
Investment property	—	—	497	497
Equity securities and pooled investment funds	10,788	515	33	11,336
Debt securities	1,378	3,069	19	4,466
Derivative assets	5	2	—	7
Total unit-linked	12,171	3,586	549	16,306
Annuity and other long-term business:				
Investment property	—	—	876	876
Equity securities and pooled investment funds	5	—	2	7
Loans	—	—	934	934
Debt securities	1,617	6,616	4,166	12,399
Derivative assets	—	265	25	290
Total annuity and other long-term business	1,622	6,881	6,003	14,506
Other:				
Equity securities and pooled investment funds	162	—	58	220
Debt securities	686	440	40	1,166
Derivative assets	—	150	—	150
Total other	848	590	98	1,536
Group:				
Investment property	—	—	16,505	16,505
Equity securities and pooled investment funds	51,110	5,837	13,180	70,127
Loans	—	137	1,079	1,216
Debt securities	17,366	36,505	8,950	62,821
Derivative assets	57	2,767	26	2,850
Total assets at fair value	68,533	45,246	39,740	153,519

14 Fair value methodology continued

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

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

14 Fair value methodology continued

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

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

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

	2021			
	Level 1	Level 2	Level 3	Total
As at 31 December	£m	£m	£m	£m
Investment contract liabilities without discretionary participation features	—	14,884	—	14,884
Third party interest in consolidated funds	7,170	4,225	1,241	12,636
Subordinated liabilities and other borrowings	—	—	1,159	1,159
Derivative liabilities	37	2,648	4	2,689
Accruals, deferred income and other liabilities	—	—	403	403
Total liabilities at fair value	7,207	21,757	2,807	31,771

15 Contingencies and related obligations

15.1 Litigation, tax and regulatory matters

In addition to the regulatory provisions held in relation to annuity past sales practices and the litigation in respect of portfolio dividend tax, the Group is involved in various litigation and regulatory issues. While the outcome of such litigation and regulatory issues cannot be predicted with certainty, the Directors believe that their ultimate outcome will not have a material adverse effect on the Group’s financial condition, results of operations, or cash flows.

15.2 Guarantees

Guarantee funds provide for payments to be made to policyholders on behalf of insolvent life insurance companies and are financed by payments assessed on solvent insurance companies based on location, volume and types of business. The estimated reserve for future guarantee fund assessments is not significant, and adequate reserves are available for all anticipated payments for known insolvencies.

M&G plc acts as guarantor for certain property leases where a group company is a lessee. The most material of these is the guarantee provided in respect of the 10 Fenchurch Avenue lease between Saxon Land B.V. and M&G Corporate Services Limited.

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

M&G Group Regulated Entity Holding Company Limited is a guarantor for the obligations of M&G Corporate Services Limited to make payments under the Scottish Amicable Staff Pension Scheme.

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

15.3 Support for the With-Profits Fund by shareholders

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

15 Contingencies and related obligations continued

15.3 Support for the With-Profits Fund by shareholders continued

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

- The With-Profits Fund contributed to the costs of establishing the Polish branch of PAC, and receives repayment through income from charges levied on the business. There is an obligation on the shareholders to ensure that the With-Profits Fund will be repaid in full with interest, and an amount is recognised for the estimated cost to the shareholder of any shortfall at the end of the term of the agreement. The impact is included in the Unallocated surplus of the With-Profits Fund with changes in value recognised in Movement in unallocated surplus of the With-Profits Fund in the consolidated income statement.
- Part of the acquisition costs incurred in the early years of M&G Wealth Advice Limited (formerly Prudential Financial Planning Ltd) were funded by the With-Profits Fund. In return, M&G Wealth Advice Limited is required to deliver cost savings to the With-Profits Fund. In the event of closure of M&G Wealth Advice or, the cost savings not being delivered and M&G Wealth Advice stops writing new business, the shareholder will reimburse the With-Profits Fund for any remaining shortfall. The time period for repayment is not defined.
- Transformation costs associated with with-profits new business will be recovered in the pricing of future new business (subject to a shareholder underpin whereby the shareholder will compensate the With-Profits Fund if any of these costs are not fully recovered at the end of the term of the agreement).
- PAC has undertaken a project to rationalise fund structures (The Target Investment Model programme) achieved by combining existing, smaller funds with the main With-Profits asset share fund in a fund umbrella structure, and is expected to yield various benefits for the business over time. If expected benefits do not materialise to the With-Profits Fund, the shareholder is committed to compensate the fund for any implementation costs borne which were not fully recouped. The assessment period for the underpin arrangement is 5 years, running to the end of 2025.
- PAC has priced new with-profits business on a basis that is expected to be financially self-supporting or, where this has not been the case, the shareholder is required to cover the cost (known as the New Business Supportability Test, 'NBST'). The impact is included in the unallocated surplus of the with-profits fund with changes in value recognised in movement in unallocated surplus of the with-profits fund in the consolidated income statement.

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

15.3.1 Pension mis-selling review

The Pensions mis-selling review covers clients who were sold personal pensions between 29 April 1988 and 30 June 1994, and who were advised to transfer out, not join, or opt out of their employer's Defined Benefit Pension Scheme. Currently a provision amounting to £226m (2021: £296m) as at 31 December 2022 is being held in relation to this within insurance contract liabilities. During the initial review, some clients were issued with guarantees that redress will be calculated on retirement or transfer of their policies. The provision continues to cover these clients.

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

The key assumptions underlying the provisions are:

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

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

		As at 31 December	
		2022	2021
Assumption	Change in assumption	£m	£m
Average cost of redress	increase/decrease by 10%	**+/-10**	+/-10
Reserve rate for soft closed cases	increase/decrease by 10%	**+/- 30**	+/- 30

15 Contingencies and related obligations continued

15.3 Support for the With-Profits Fund by shareholders continued

Costs arising from this review are met by the excess assets of the with-profits sub-fund and hence have not been charged to the asset shares used in the determination of policyholder bonus rates. An assurance was given that these deductions from excess assets would not impact PAC's bonus or investment policy for policies within the with-profits sub-funds that were in force at 31 December 2003. This assurance does not apply to new business since 1 January 2004. In the unlikely event that such deductions would affect the bonus or investment policy for the relevant policies, the assurance provides that support would be made available to the sub-fund from PAC's shareholder resources for as long as the situation continued, so as to ensure that PAC's policyholders were not disadvantaged. PAC's comfort in its ability to make such support available was supported by related intra-group arrangements between Prudential plc and PAC, which formalised the circumstances in which capital support would be made available to PAC by Prudential plc. These intra-group arrangements terminated on 21 October 2019, following the demerger of M&G plc from Prudential plc, at which time intra-group arrangements formalising the circumstances in which M&G plc would make capital support available to PAC became effective.

15.3.2 With-profits options and guarantees

Certain policies within the With-Profits Fund give potentially valuable guarantees to policyholders, or options to change policy benefits which can be exercised at the policyholders' discretion. These options and guarantees are valued as part of the policyholder liabilities. Please refer to Note 11.1 for further details on these options and guarantees.

16 Post balance sheet events

On 3 August 2022, M&G Wealth Advice Limited, a wholly owned subsidiary of the Group, agreed to acquire a 49.9% holding in My Continuum Financial Limited (MCFL). MCFL is the holding company of Continuum (Financial Services) LLP (CFSL) and My Continuum Wealth (MCW). CFSL is a regulated entity engaged in providing wealth management services to retail clients through a network of independent financial advisors whereas MCW provides in-house portfolio management services through provision of model portfolios.

The transaction required regulatory approval, which was granted on 3 February 2023, and acquisition of the initial stake completed on 8 March 2023 and from this date the investment was recognised as an investment in associate accounted for under the equity method on the consolidated statement of financial position.

The agreement provides the Group the call option and the sellers the put option to allow acquisition of the remaining holding in MCFL over 2 years from the completion date.

As referenced in Note 2.1.2, the Group retained call options and the seller retained put options over the remaining shareholding in responsAbility that the Group did not purchase at the acquisition date. The Group has subsequently acquired the remaining shares on 21 February 2023.

Supplementary information

1.1 Overview of the Group's key and alternate performance measures

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

A list of the APMs used by the Group along with their definitions and how they can be reconciled to the nearest IFRS or Solvency II measure, where applicable, is provided in the table below.

Key performance measure	Type	Definition
IFRS profit or loss after tax	KPM	IFRS profit or loss after tax demonstrates to our shareholders the financial performance of the Group during the year on an IFRS basis.
Adjusted operating profit before tax	APM, KPM	Adjusted operating profit before tax is the Group's non-GAAP alternative performance measure, which complements IFRS GAAP measures and is useful as it allows deeper understanding of operating performance over time. It is therefore key to decision-making and the internal performance management of our operating segments. Certain adjustments that are considered to be non-recurring or strategic, or due to short-term movements not reflective of longer-term performance are made to IFRS profit before tax to determine Adjusted operating profit before tax. Adjustments are in respect of short-term fluctuations in investment returns, costs associated with fundamental Group-wide restructuring and transformation, profit/(loss) arising on corporate transactions, impairment and amortisation in respect of acquired intangible assets and where relevant, profit/(loss) before tax from discontinued operations. The adjusted operating profit methodology is described in Section 3.2, along with a reconciliation of adjusted operating profit before tax to IFRS profit after tax.
Adjusted operating income	APM	Adjusted operating income is a component part of the Group's key APM of adjusted operating profit before tax. For the Group's fee based business adjusted operating income represents asset management charges, transactional charges and annual management charges on unit-linked business. For the Group's business written in the With-Profits Fund, adjusted operating income includes the statutory transfer to shareholders gross of attributable shareholder tax. Derivative instruments are held to mitigate the risk to the shareholder of lower future shareholder transfers. For the Group's shareholder annuity products written by the Retail and Savings segment, adjusted operating income includes the net impact of movements in the value of policyholder liabilities and fair value of the assets backing these liabilities, the unwind of the credit risk premium, the actual income received in the year, such as coupon payments, redemption payments and rental income on surplus assets backing the shareholder annuity capital, less an allowance for expenses, the net effect of changes to the valuation rate of interest due to asset trading and portfolio rebalancing and the impact of changes in the long-term component of credit provisioning. Specifically excluded are the impact of short-term components of credit risk provisioning, the impact of credit risk experience variances over the period, and total fair value movement on surplus assets backing the shareholder annuity capital, that are not reflective of the longer-term performance of the business.
Adjusted operating expenses	APM	Adjusted operating expenses is a component part of the Group's key APM of adjusted operating profit before tax. Included are operating costs for the business consisting of overheads, expenses required to meet regulatory requirements and regular business development/restructuring and other costs. Non-recurring or strategic costs associated with fundamental Group-wide merger, transformation, rebranding and other change in control costs are not included.

Assets under management and administration (AUMA)	APM, KPM	Closing AUMA represents the total market value of all assets managed, administered or advised on behalf of clients at the end of each financial period and is a key indicator of the scale of the business. Assets managed by the Group include those managed on behalf of our institutional and wholesale clients. Assets administered by the Group includes assets which we provide investment management services for, in addition to assets we administer where the client has elected to invest in a third-party investment manager. Assets under advice are advisory portfolios where clients receive investment recommendations such as Strategic Asset Allocation & model portfolios but retain discretion over executing the advice. AUMA includes assets recognised in the Group's consolidated statement of financial position together with certain assets administered by the Group belonging to external clients outside of the Group which are therefore not included within the Group's statement of financial position and, as a result, this measure is not directly reconcilable to the financial statements. Please see section 1.3 of the supplementary financial information for further details on the Group's AUMA.
Net client flows (excluding Heritage)	APM, KPM	Net client flows represent gross inflows less gross outflows and provides useful insight into the growth of the business. Gross inflows are new funds from clients. Gross outflows are money withdrawn by clients during the period. This measure does not include the expected net outflows in our Heritage business, which is closed to new clients, as it runs-off. Net client flows includes flows on assets held on the Group's consolidated statement of financial position for our retail clients, and external client flows on assets belonging to wholesale and institutional clients outside of the Group which are not included in the Group's consolidated statement of financial position and as a result, this measure is not directly reconcilable to the financial statements. Please see section 1.3 of the supplementary financial information section for further analysis on net client flows, excluding heritage.
Shareholder Solvency II coverage ratio	APM, KPM	Management focuses on a shareholder view of Solvency II coverage ratio, which is considered to provide a more useful reflection of the capital strength of the Group. The shareholder view includes future with-profits shareholder transfers, but excludes the shareholders' share of ring-fenced with-profits estate. The regulatory Solvency II capital position considers the Group's overall own funds and SCR. The shareholder Solvency II coverage ratio is the ratio of own funds to SCR, excluding the contribution to own funds and SCR from the Group's ring-fenced With-Profits Fund. Own Funds assume transitional measures on technical provisions which have been recalculated using management's estimate of the impact of operating and market conditions at the valuation date. The shareholder Solvency II coverage ratio is described in the "Solvency II capital position" in section 1.4.
Underlying capital generation	APM	For insurance entities and their underlying subsidiaries, underlying capital generation includes the expected Solvency II surplus capital generated from in-force business and the impact of writing new life insurance business. For non-insurance entities, underlying capital generation is equal to adjusted operating profit before tax, with certain adjustments made in respect of items that do not reflect the underlying result. It also includes other items such as head office expenses and debt interest costs that contribute to the underlying capital position of the business. Please see section 1.5 of the supplementary financial information for further details on underlying capital generation, including any applicable reconciliation.

Operating capital generation	APM, KPM	Operating capital generation is the total capital generation before tax, adjusted to exclude market movements relative to those expected under long-term assumptions and to remove other non-operating items, including shareholder restructuring and other costs. Management use this as an indicator on the longer-term components of the movement in the Group's surplus capital as it is less affected by short-term market volatility and non-recurring items as total capital generation. Please see section 1.5 of the supplementary financial information for further details on operating capital generation.
Total capital generation	APM, KPM	Total capital generation measures the change in surplus capital during the period, before dividends and capital movements. Management consider it to be integral to the running and monitoring of the business, our decisions on capital allocation and investment, and ultimately our dividend policy. Surplus capital is the amount by which own funds exceed SCR under Solvency II. Total capital generation is the total change in Solvency II surplus capital before dividends and capital movements. Please see section 1.5 of the supplementary financial information for further details on total capital generation including the reconciliation to change in Solvency II surplus.

1.2 Adjusted operating profit before tax

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

	Asset Management		Retail and Savings		Corporate Centre		Total	
	2022	2021	2022	2021	2022	2021	2022	2021
For the year ended 31 December	£m	£m	£m	£m	£m	£m	£m	£m
Fee-based revenue	**1,051**	976	**295**	278	**—**	—	**1,346**	1,254
Annuity margin	**—**	—	**227**	369	**—**	—	**227**	369
With-profits shareholder transfer net of hedging and other gains/losses	**—**	—	**354**	268	**—**	—	**354**	268
Adjusted operating income	**1,051**	976	**876**	915	**—**	—	**1,927**	1,891
Adjusted operating expenses	**(763)**	(672)	**(295)**	(296)	**(107)**	(95)	**(1,165)**	(1,063)
Other shareholder (loss)/profit	**(5)**	17	**(9)**	41	**(200)**	(159)	**(214)**	(101)
Share of profit from joint ventures and associates[i]	**—**	6	**—**	—	**—**	—	**—**	6
Adjusted operating profit attributable to non-controlling interests	**(19)**	(12)	**—**	—	**—**	—	**(19)**	(12)
Adjusted operating profit/(loss) before tax	**264**	315	**572**	660	**(307)**	(254)	**529**	721

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

Supplementary information continued

1.2 Adjusted operating profit before tax continued

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

	Asset Management		Retail and Savings			Corporate Centre
For the year ended 31 December 2022	Core Asset Management £m	Performance fees[i] and investment income £m	Wealth £m	Heritage £m	Other £m	Other £m
Fee-based revenue	**995**	**56**	**140**	**92**	**63**	**—**
Annuity margin	**—**	**—**	**—**	**227**	**—**	**—**
With-profits shareholder transfer net of hedging and other gains/losses	**—**	**—**	**128**	**226**	**—**	**—**
Adjusted operating income	**995**	**56**	**268**	**545**	**63**	**—**
Asset Management operating expenses	**(763)**	**—**	**—**	**—**	**—**	**—**
Other operating expenses	**—**	**—**	**(173)**	**(80)**	**(42)**	**(107)**
Adjusted operating expenses	**(763)**	**—**	**(173)**	**(80)**	**(42)**	**(107)**
Other shareholder (loss)/profit	**—**	**(5)**	**1**	**1**	**(11)**	**(200)**
Share of profit from joint ventures and associates	**—**	**—**	**—**	**—**	**—**	**—**
Adjusted operating profit attributable to non-controlling interests	**(14)**	**(5)**	**—**	**—**	**—**	**—**
Adjusted operating profit/(loss) before tax	**218**	**46**	**96**	**466**	**10**	**(307)**

i Includes carried interest.

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

	Asset Management		Retail and Savings			Corporate centre
For the year ended 31 December 2021	Core Asset Management £m	Performance fees[i] and investment income £m	Wealth £m	Heritage £m	Other £m	Other £m
Fee-based revenue	953	23	144	76	58	—
Annuity margin	—	—	—	369	—	—
With-profits shareholder transfer net of hedging and other gains/losses	—	—	63	205	—	—
Adjusted operating income	953	23	207	650	58	—
Asset management operating expenses	(672)	—	—	—	—	—
Other operating expenses	—	—	(168)	(85)	(43)	(95)
Adjusted operating expenses	(672)	—	(168)	(85)	(43)	(95)
Other shareholder profit/(loss)	—	17	2	55	(16)	(159)
Share of profit from joint ventures and associates	6	—	—	—	—	—
Adjusted operating profit attributable to non-controlling interests	(10)	(2)	—	—	—	—
Adjusted operating profit/(loss) before tax	277	38	41	620	(1)	(254)

i Includes carried interest.

Supplementary information continued

1.2 Adjusted operating profit before tax continued

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

For the year ended 31 December	2022 £m	2021 £m
Return on excess assets and margin release	**163**	172
Asset trading and other optimisation	**35**	10
Longevity assumption changes	**193**	125
Mismatching losses[i]	**(122)**	(6)
Other assumption and model changes[ii]	**(19)**	10
Experience variances and model improvements	**(8)**	12
Other provisions and reserves	**(15)**	46
Annuity margin	**227**	369

i Mismatching losses of £122m for the year ended 31 December 2022 (2021: £6m) relates to short-term mismatches between the value of annuity liabilities and the long-term assets backing these liabilities due to the impact of market movements.

ii Other assumptions and model changes of £(19)m for the year ended 31 December 2022 (2021: £10m) include assumption changes other than those relating to longevity, including the impact of expense assumption changes and the impact of improvements to models.

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

For the year ended 31 December	2022 £m	2021 £m
Adjusted operating profit before tax	**529**	721
Short term fluctuations in investment returns	**(2,484)**	(537)
Profit on disposal of business and corporate transactions	**—**	35
Restructuring and other costs	**(147)**	(146)
Amortisation and impairment of intangible assets acquired in business combinations	**(35)**	(4)
IFRS profit before tax attributable to non-controlling interests	**19**	12
IFRS (loss)/profit before tax attributable to equity holders	**(2,118)**	81
Tax credit attributable to equity holders	**499**	11
IFRS (loss)/profit after tax attributable to equity holders	**(1,619)**	92

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

1.3 (i) Detailed AUMA and net client flows

	2022					
For the year ended 31 December	As at 1 January 2022 £bn	Gross inflows £bn	Gross outflows £bn	Net client flows £bn	Market/ Other movements £bn	As at 31 December 2022 £bn
Institutional Asset Management	**103.1**	**13.1**	**(13.8)**	**(0.7)**	**(3.2)**	**99.2**
Wholesale Asset Management	**52.7**	**16.0**	**(15.5)**	**0.5**	**0.7**	**53.9**
Other	**0.9**	**—**	**—**	**—**	**0.2**	**1.1**
Total Asset Management	**156.7**	**29.1**	**(29.3)**	**(0.2)**	**(2.3)**	**154.2**
Wealth	**84.2**	**8.0**	**(7.8)**	**0.2**	**(1.0)**	**83.4**
Of which PruFund	**52.4**	**5.4**	**(4.9)**	**0.5**	**(0.6)**	**52.3**
Heritage	**117.8**	**0.2**	**(6.2)**	**(6.0)**	**(17.7)**	**94.1**
Of which Shareholder annuities	**22.2**	**—**	**(1.1)**	**(1.1)**	**(5.7)**	**15.4**
Of which traditional with-profits	**81.4**	**0.2**	**(5.1)**	**(4.9)**	**(9.0)**	**67.5**
Other Retail and Savings	**9.1**	**0.9**	**(0.6)**	**0.3**	**(0.5)**	**8.9**
Of which PruFund	**6.0**	**0.7**	**(0.5)**	**0.2**	**(0.2)**	**6.0**
Total Retail and Savings	**211.1**	**9.1**	**(14.6)**	**(5.5)**	**(19.2)**	**186.4**
Corporate assets	**2.2**	**—**	**—**	**—**	**(0.8)**	**1.4**
Group Total[i]	**370.0**	**38.2**	**(43.9)**	**(5.7)**	**(22.3)**	**342.0**

i Included in total AUMA of £342.0 billion (2021: £370.0 billion) is £12.7 billion (2021: £7.9 billion) of assets under advice.

Supplementary information continued

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

For the year ended 31 December	2021 As at 1 January 2021 £bn	Gross inflows £bn	Gross outflows £bn	Net client flows £bn	Market/ Other movements £bn	As at 31 December 2021 £bn
Institutional Asset Management	85.5	16.2	(10.4)	5.8	11.8	103.1
Wholesale Asset Management	58.1	14.9	(18.7)	(3.8)	(1.6)	52.7
Other	0.8	—	—	—	0.1	0.9
Total Asset Management	144.4	31.1	(29.1)	2.0	10.3	156.7
Wealth	79.5	7.1	(8.5)	(1.4)	6.1	84.2
Of which PruFund	50.0	3.8	(5.2)	(1.4)	3.8	52.4
Heritage	133.7	0.3	(7.2)	(6.9)	(9.0)	117.8
Of which Shareholder annuities	35.3	—	(1.8)	(1.8)	(11.3)	22.2
Of which traditional with-profits	84.3	0.3	(5.1)	(4.8)	1.9	81.4
Other Retail and Savings	8.4	0.6	(0.6)	—	0.7	9.1
Of which PruFund	5.5	0.4	(0.4)	—	0.5	6.0
Total Retail and Savings	221.6	8.0	(16.3)	(8.3)	(2.2)	211.1
Corporate assets	1.2	—	—	—	1.0	2.2
Group Total[i]	367.2	39.1	(45.4)	(6.3)	9.1	370.0

1.3 (ii) AUMA by asset class

	2022									
	On-balance sheet AUMA					External AUMA				Total
As at 31 December	With-Profits £bn	Unit-linked £bn	Shareholder-backed annuities & other long-term business £bn	Corporate assets £bn	Total on balance sheet AUMA £bn	Wealth £bn	Wholesale £bn	Institutional £bn	Total external AUMA £bn	Total AUMA £bn
Investment property	**9.1**	**—**	**0.9**	**—**	**10.0**	**—**	**0.8**	**16.0**	**16.8**	**26.8**
Reinsurance assets	**—**	**—**	**1.0**	**—**	**1.0**	**—**	**—**	**—**	**—**	**1.0**
Equity securities and pooled investment funds	**69.3**	**9.7**	**—**	**0.2**	**79.2**	**3.6**	**28.6**	**18.1**	**50.3**	**129.5**
Loans	**1.1**	**—**	**1.4**	**—**	**2.5**	**—**	**—**	**9.4**	**9.4**	**11.9**
Debt securities	**32.3**	**2.5**	**12.4**	**1.2**	**48.4**	**2.1**	**22.7**	**51.6**	**76.4**	**124.8**
of which Corporate	**23.5**	**1.8**	**8.7**	**1.2**	**35.2**	**2.1**	**14.4**	**34.8**	**51.3**	**86.5**
of which Government	**7.5**	**0.6**	**3.1**	**—**	**11.2**	**—**	**7.1**	**8.7**	**15.8**	**27.0**
of which ABS	**1.3**	**0.1**	**0.6**	**—**	**2.0**	**—**	**1.2**	**8.1**	**9.3**	**11.3**
Derivatives[i]	**0.1**	**—**	**(1.5)**	**(0.1)**	**(1.5)**	**—**	**0.3**	**0.3**	**0.6**	**(0.9)**
Deposits[ii]	**14.5**	**1.2**	**1.4**	**—**	**17.1**	**—**	**—**	**—**	**—**	**17.1**
Cash and cash equivalents	**1.5**	**0.3**	**0.6**	**0.7**	**3.1**	**—**	**1.5**	**3.8**	**5.3**	**8.4**
Other	**1.0**	**0.2**	**0.2**	**0.4**	**1.8**	**—**	**—**	**—**	**—**	**1.8**
Other AUMA	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**21.6**
Total[iii]	**128.9**	**13.9**	**16.4**	**2.4**	**161.6**	**5.7**	**53.9**	**99.2**	**158.8**	**342.0**

i Derivatives assets are shown net of derivative liabilities.

ii Deposits are shown net of unsettled reverse repos.

iii Included in total AUMA of £342.0 billion (2021: £370.0 billion) is £12.7 billion (2021: £7.9 billion) of assets under advice.

Supplementary information continued

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

	2021									
	On-balance sheet AUMA					External AUMA				Total
As at 31 December	With-Profits £bn	Unit-linked £bn	Shareholder-backed annuities & other long-term business £bn	Corporate assets £bn	Total on balance sheet AUMA £bn	Wealth £bn	Wholesale £bn	Institutional £bn	Total external AUMA £bn	Total AUMA £bn
Investment property	9.4	0.1	1.1	—	10.6	—	0.6	14.6	15.2	25.8
Reinsurance assets	—	0.2	1.5	—	1.7	—	—	—	—	1.7
Equity securities and pooled investment funds	72.4	10.7	—	0.3	83.4	3.9	21.3	19.5	44.7	128.1
Loans	1.4	—	2.2	—	3.6	—	—	11.2	11.2	14.8
Debt securities	42.6	3.3	18.2	1.3	65.4	2.5	29.2	55.4	87.1	152.5
of which Corporate	30.8	2.1	12.7	1.3	46.9	2.5	17.2	32.0	51.7	98.6
of which Government	9.7	1.1	4.8	—	15.6	—	10.2	13.2	23.4	39.0
of which ABS	2.1	0.1	0.7	—	2.9	—	1.8	10.3	12.1	15.0
Derivatives[ii]	1.4	—	(0.6)	—	0.8	—	0.1	(0.2)	(0.1)	0.7
Deposits[iii]	11.9	1.3	1.0	—	14.2	—	(0.1)	—	(0.1)	14.1
Cash and cash equivalents	2.5	0.2	1.0	1.5	5.2	—	1.6	2.6	4.2	9.4
Other	1.4	0.3	0.1	—	1.8	—	—	—	—	1.8
Other AUMA										21.1
Total[iv]	143.0	16.1	24.5	3.1	186.7	6.4	52.7	103.1	162.2	370.0

1.3 (iii) AUMA by geography

The below table illustrates AUMA by geography based on the country of the underlying client:

As at 31 December	2022 £bn	2021 £bn
UK	**264.1**	299.9
Rest of Europe	**52.7**	48.3
Asia-Pacific	**11.1**	9.5
Middle East and Africa	**12.7**	11.0
Americas	**1.4**	1.3
Total AUMA[i]	**342.0**	370.0

i Included in total AUMA of £342.0 billion (2021: £370.0 billion) is £12.7 billion (2021: £7.9 billion) of assets under advice.

1.4 Solvency II capital position

1.4.1 Solvency II overview

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

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

Supplementary information continued

1.4 Solvency II capital position continued

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

	2022 £bn	2021 £bn
IFRS shareholders' equity	**2.8**	5.3
Add back unallocated surplus of the With-Profits Fund	**15.1**	16.7
Deduct goodwill and intangible assets	**(1.6)**	(1.4)
Net impact of policyholder liabilities and reinsurance assets on Solvency II basis	**(0.7)**	(0.3)
Impact of introducing Solvency II risk margin (net of transitional measures)	**(1.0)**	(1.1)
Impact of measuring assets and liabilities in line with Solvency II principles	**0.8**	0.2
Recognise own shares	**0.1**	0.1
Other	**—**	—
Solvency II excess of assets over liabilities	**15.5**	19.5
Subordinated debt capital	**3.0**	3.7
Ring-fenced fund restrictions	**(6.6)**	(7.8)
Deduct own shares	**(0.1)**	(0.1)
Solvency II eligible own funds	**11.8**	15.3

The key items in the reconciliation are explained below:

- Unallocated surplus of the With-Profits Fund: this amount is treated as a liability under IFRS, but considered surplus assets under Solvency II.
- Goodwill and intangible assets: these assets are not recognised under Solvency II as they are not readily available to meet emerging losses.
- Policyholder liability and reinsurance asset valuation differences: there are significant differences in the valuation of technical provisions between IFRS and Solvency II. The most material differences relate to the exclusion of prudent margins in longevity assumptions under Solvency II, and also the use of different discount rates, both in relation to the valuation of annuity liabilities.
- Solvency II risk margin (net of transitional measures): the risk margin is a significant component of technical provisions required to be held under Solvency II. These additional requirements are partially mitigated by transitional measures which allow the impact to be gradually introduced over a period of 16 years from the introduction of Solvency II on 1 January 2016.
- Subordinated debt capital: subordinated debt is treated as a liability in the IFRS financial statements and in determining the excess of assets over liabilities in the Solvency II balance sheet. However, for Solvency II own funds, the debt can be treated as capital.
- Ring-fenced fund restrictions: any excess of the own funds over the solvency capital requirements from the With-Profits Fund is restricted as these amounts are not available to meet losses elsewhere in the Group.

1.4.3 Composition of own funds

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

As at 31 December	2022 £bn	2021 £bn
Tier 1 (unrestricted)	**8.2**	11.5
Tier 2	**3.0**	3.7
Tier 3	**0.6**	0.1
Total eligible own funds	**11.8**	15.3

The Group's Tier 2 capital consists of subordinated debt instruments. The terms of these instruments allow them to be treated as capital for the purposes of Solvency II. The instruments were originally issued by Prudential plc, and subsequently substituted to the Company, as permitted under the terms and conditions of each applicable instrument, prior to demerger.

Supplementary information continued

1.4 Solvency II capital position continued

The details of the Group's subordinated liabilities are shown in Note 12. The Solvency II value of the debt differs to the IFRS carrying value due to a different basis of measurement on the respective balance sheets.

The Group's Tier 3 capital of £0.6bn (2021: £0.1bn) relates to deferred tax asset balances.

1.4.4 Estimated shareholder view of the Solvency II capital position

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

The estimated and unaudited shareholder Solvency II capital position for the Group is shown below:

As at 31 December	2022 £bn	2021 £bn
Shareholder Solvency II eligible own funds	**9.3**	11.4
Shareholder Solvency II SCR	**(4.7)**	(5.2)
Solvency II surplus	**4.6**	6.2
Shareholder Solvency II coverage ratio[i]	**199 %**	218 %

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

The Group's shareholder Solvency II capital position excludes the contribution to own funds and SCR from the ring-fenced With-Profits Fund. Further information on the ring-fenced With-Profits Fund's capital position is provided in Section 1.4.5.

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

- An SCR which has been calculated using the Group's Internal Model.
- Transitional measures, which are presented assuming a recalculation as at the valuation date, using management's estimate of the impact of operating and market conditions.
- A matching adjustment for non-profit annuities, based on approval from the Prudential Regulation Authority.
- M&G Group Limited and other undertakings carrying out financial activities consolidated under local sectoral or notional sectoral capital requirements.

Breakdown of the shareholder Solvency II SCR by risk type

The shareholder undiversified capital requirement is presented by risk type below.

As at 31 December	2022 £bn	2021 £bn
Equity	**1.7**	1.7
Property	**0.9**	0.9
Interest rate	**0.6**	0.3
Credit	**1.6**	2.7
Currency	**1.1**	1.0
Longevity	**0.9**	1.6
Lapse	**0.5**	0.3
Operational & expense	**1.3**	1.4
Sectoral[i]	**0.7**	0.6
Total undiversified	**9.3**	10.5
Diversification, deferred tax and other	**(4.6)**	(5.3)
Shareholder SCR	**4.7**	5.2

i Includes entities included within the Group's Solvency II capital position on a sectoral or notional sectoral basis, the most material of which is M&G Group Limited.

Sensitivity analysis of the Group's Solvency II surplus and shareholder Solvency II coverage ratio

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

Supplementary information continued

1.4 Solvency II capital position continued

As at 31 December	2022 Surplus £bn	2022 Shareholder coverage ratio %	2021 Surplus £bn	2021 Shareholder coverage ratio %
Base (as reported)	**4.6**	**199 %**	6.2	218 %
20% instantaneous fall in equity markets	**4.0**	**187 %**	5.5	208 %
20% instantaneous fall in property markets	**4.2**	**190 %**	5.7	211 %
50bp reduction in interest rates	**4.4**	**191 %**	6.1	208 %
100bp widening in credit spreads	**4.3**	**196 %**	5.9	218 %
20% credit asset downgrade[i]	**4.4**	**194 %**	5.9	211 %

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

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

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

The estimated and unaudited Solvency II capital position for the Group under the With-Profits Fund view is shown below:

As at 31 December	2022 £bn	2021 £bn
With-Profits Fund Solvency II own funds	**9.1**	11.6
With-Profits Fund Solvency II SCR	**(2.5)**	(3.8)
With-Profits Fund Solvency II surplus	**6.6**	7.8
With-Profits Fund Solvency II coverage ratio[i]	**362 %**	302 %

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

1.4.6 Estimated regulatory view of the Solvency II capital position

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

As at 31 December	2022 £bn	2021 £bn
Solvency II own funds	**11.8**	15.3
Solvency II SCR	**(7.2)**	(9.1)
Solvency II surplus	**4.6**	6.2
Solvency II coverage ratio[i]	**164 %**	168 %

i Solvency II coverage ratio has been calculated using unrounded figures. On a regulatory approved transition measures on technical provisions basis, the surplus is £4.8bn (2021: £6.2bn) and the solvency coverage ratio is 168% (2021: 168%).

The results include transitional measures, which are presented assuming a recalculation as at the valuation date, using management's estimate of the impact of operating and market conditions. As at 31 December 2022, the recalculated transitional measures do not align to the latest approved regulatory position and therefore the estimated and unaudited Solvency II capital position differs from the position disclosed in the formal regulatory Quantitative Reporting Templates and Group Solvency and Financial Condition Report of the same date. As at 31 December 2021, the recalculation was approved for the reporting date and the positions were aligned.

1.5 Capital generation

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

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

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

Supplementary information continued

1.5 Capital generation continued

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

i. Underlying capital generation, which includes: the underlying expected surplus capital from the in-force life insurance business; the change in surplus capital as a result of writing new life insurance business; the adjusted operating profit before tax and associated regulatory capital movements from Asset Management; and other items, including head office expenses and debt interest costs.

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

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

The expected surplus capital from the in-force life insurance business is calculated on the assumption of real-world investment returns, which are determined by reference to the risk-free rate plus a risk premium based on the mix of assets held for the relevant business. For with-profits business, the assumed average return over the risk-free rate was 4.10% for the year ended 31 December 2022 (2021: 4.00%). For annuity business, the assumed average return on assets backing capital was 2.19% for the year ended 31 December 2022 (2021: 1.15%).

The Group's capital generation results in respect of the years ended 31 December 2022 and 31 December 2021 are shown below alongside a reconciliation of the total movement in the Group's Solvency II surplus. The reconciliation is presented showing the impact on the shareholder Solvency II own funds and SCR, which excludes the contribution to own funds and SCR from the Group's ring-fenced With-Profits Fund. The shareholder Solvency II capital position, and how this reconciles to the regulatory capital position, is described in detail in Section 1.4.

The capital generation results and comparatives have adopted a basis of preparation consistent with the IFRS consolidated financial statements.

	Asset Management		Retail and Savings		Corporate Centre		Total	
	2022	2021	2022	2021	2022	2021	2022	2021
For the year ended 31 December	£m	£m	£m	£m	£m	£m	£m	£m
Underlying capital generation	**246**	313	**641**	459	**(259)**	(288)	**628**	484
Other operating capital generation	**(33)**	15	**194**	621	**32**	(3)	**193**	633
Operating capital generation	**213**	328	**835**	1,080	**(227)**	(291)	**821**	1,117
Market movements							**(1,225)**	917
Restructuring & other							**(166)**	(181)
Tax							**173**	(31)
Total capital generation							**(397)**	1,822

Supplementary information continued

1.5 Capital generation continued

A reconciliation of the movement in Group Solvency II surplus is presented below.

For the year ended 31 December		2022 Own funds[i] £m	2022 SCR[i] £m	2022 Surplus £m	2021 Own funds[i] £m	2021 SCR[i] £m	2021 Surplus £m
Underlying capital generation							
Asset Management	Asset Management	**268**	**(22)**	**246**	308	5	313
	Asset management underlying capital generation	**268**	**(22)**	**246**	308	5	313
Retail and Savings	Wealth	**214**	**(59)**	**155**	117	(68)	49
	of which with-profits	**233**	**(53)**	**180**	128	(68)	60
	– *in-force*	**187**	**29**	**216**	169	(57)	112
	– *new business*	**46**	**(82)**	**(36)**	(41)	(11)	(52)
	of which Platform and advice	**(21)**	**(4)**	**(25)**	(11)	—	(11)
	Heritage	**339**	**164**	**503**	185	193	378
	of which with-profits	**138**	**54**	**192**	115	27	142
	of which annuity and other	**201**	**110**	**311**	70	166	236
	Other Retail and Savings	**43**	**(60)**	**(17)**	36	(4)	32
	Retail and savings underlying capital generation	**596**	**45**	**641**	338	121	459
Corporate	Interest and head office cost	**(267)**	**8**	**(259)**	(280)	(8)	(288)
Underlying capital generation		**597**	**31**	**628**	366	118	484
Other operating capital generation		**194**	**(1)**	**193**	217	416	633
	of which Asset Management	**7**	**(40)**	**(33)**	5	10	15
	of which Retail and Savings	**188**	**6**	**194**	201	420	621
	of which Corporate Centre	**(1)**	**33**	**32**	11	(14)	(3)
Operating capital generation		**791**	**30**	**821**	583	534	1,117
	Market movements	**(2,259)**	**1,034**	**(1,225)**	739	178	917
	Restructuring and other	**(173)**	**7**	**(166)**	(167)	(14)	(181)
	Tax	**652**	**(479)**	**173**	16	(47)	(31)
Total capital generation		**(989)**	**592**	**(397)**	1,171	651	1,822
Dividends and capital movements		**(1,151)**	**(15)**	**(1,166)**	(410)	(24)	(434)
Total (decrease)/increase in Solvency II surplus		**(2,140)**	**577**	**(1,563)**	761	627	1,388

i Own funds and SCR movements shown as per the shareholder Solvency II capital position, and do not include the own funds and SCR in respect of the ring-fenced With-Profits Fund.

1.6 Financial ratios

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

1.6 (i) Cost/income ratio

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

For the year ended 31 December	2022 £m	2021 £m
Total Asset Management operating expenses	**763**	672
Adjustment for revaluations[i]	**2**	(3)
Total Asset Management adjusted costs	**765**	669
Total Asset Management fee based revenue	**1,051**	976
Less: performance fees and carried interest	**(56)**	(23)
Total Asset Management underlying fee-based revenue	**995**	953
Cost/income ratio (%)	**77 %**	70 %

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

Supplementary information continued

1.6 Financial ratios continued

1.6 (ii) Average fee margin

This represents the average fee revenue yield on fee business and demonstrates the margin being earned on the assets we manage or administer.

For the year ended 31 December	2022 Average AUMA[i] £bn	2022 Revenue[ii] £m	2022 Fee margin[ii] bps	2021 Average AUMA[i] £bn	2021 Revenue[ii] £m	2021 Fee margin[ii] bps
Wholesale Asset Management	**52**	**299**	**58**	53	316	59
Institutional Asset Management	**102**	**390**	**38**	93	334	36
Internal	**157**	**306**	**19**	157	303	19
Total Asset Management	**311**	**995**	**32**	303	953	32

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

ii Fee margin is calculated by annualising underlying fee-based revenues earned, which excludes performance fees, in the period divided by average AUMA for the period. Fee margin relates to the total margin for internal and external revenue.

1.7 Credit risk

The Group's exposure to credit risk primarily arises from the annuity portfolio, which holds large amounts of investments on which a certain level of defaults and downgrades are expected.

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

Exposure of debt securities by sector

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

As at 31 December	2022 £m	2021 £m
Financial	**3,987**	5,588
Government	**3,085**	4,861
Real Estate	**1,709**	2,830
Utilities	**1,793**	2,467
Consumer	**613**	817
Industrial	**425**	617
Communications	**274**	365
Other	**513**	721
Total	**12,399**	18,266