M&G plc
Annual Report and Accounts 2021

Helping people manage and grow their savings so they can live the life they want while making the world a little better along the way.
One M&G.

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"As one M&G we're continuing to take the right steps towards a sustainable future.

Setting and delivering on ambitious net zero emissions targets to tackle climate change is the right thing to do for our policyholders, our customers, our clients and the planet, and just as importantly, we believe that where major asset owners lead, others will follow."

John Foley
Chief Executive

A guide to using this report

This interactive PDF is designed to help you easily navigate the report and find the information you are looking for. For optimal experience, it is recommended that this document is viewed in Adobe Acrobat Reader. Interactive functionality may not work when viewed in a web browser or other PDF readers. Click on the dynamic links to access further relevant information within the report or online, and use the tabs at the top of the page to navigate between sections.

Navigation buttons:

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Dynamic link button:

Read more
Pages XX-XX

Financial highlights

KPM APM REM
Adjusted operating profit before tax[i]
£721m
(2020: £788m)

KPM REM
Total capital generation[ii]
£1,822m
(2020: £995m)

KPM REM
Operating capital generation[ii]
£1,117m
(2020: £1,312m)

KPM
Assets under management and administration
£370.0bn
(2020: £367.2bn)

KPM
IFRS profit after tax
£92m profit
(2020: £1,142m)

KPM APM
Shareholder Solvency II coverage ratio[iii]
218%
(2020: 182%)

KPM
Net client flows (excluding Heritage)
£0.6bn inflow
(2020: £6.6bn outflow)

ESG highlights

REM
Female representation on the M&G plc Executive Committee and direct reports
35%
(2020: 30%)

REM
Net Promoter Score (Retail and Savings)
+3
(2020: +9)

REM
Employee sustainable engagement score
75%
(2020: 80%)

Carbon disclosure rating[iv]
B
(2020: A-)

REM
Direct carbon emissions: Scope 1 and 2[v]
1,769tCO_2e
(2020: 2,916 tCO_2e)

Key

KPM	Key Performance Measure (defined in glossary)
APM	Alternative Performance Measure (defined in glossary)
REM	Linked to remuneration measures for Executive Directors

i Adjusted operating profit before tax is profit before tax excluding short-term fluctuations from investment returns, profit or loss on disposal of business and corporate transactions, amortisation of intangible assets, restructuring and other costs.

ii Total capital generation is the total change in Solvency II surplus capital before dividends and capital movements. 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.

iii Shareholder Solvency II coverage ratio is the ratio of our own funds to solvency capital requirement (SCR), excluding the contribution to own funds and SCR from our ring-fenced With-Profits Fund. The Solvency II position is presented assuming a recalculation of transitional measures in line with management's estimate of market and operating conditions as at the valuation date.

iv Awarded by CDP, a global environmental disclosure body. The score is an indicator of how we measure, disclose and manage our carbon emissions footprint.

v When reporting totals, market-based emissions are used. Note that the 2020 figure has been restated, see page 49 for details.

A leader in savings and investments

Our vision

To be the best loved and most successful savings and investments business.

Our purpose

To help people manage and grow their savings so they can live the life they want, while making the world a little better along the way.

Our values

Care

We act with care – treating customers, clients and colleagues with the same level of respect that we would expect for ourselves. We also invest with care, making choices for the long term.

Integrity

We empower our people to do the right thing, honouring our commitments to others and acting with conviction. Our business is built on trust and we don't take that lightly.

Our business

We changed our management structure in October 2021 to give clear ownership for the end to end customer journey and associated financial results. Our new operating segments, Asset Management and Retail and Savings, reflect this new management structure.

£370.0bn[i]
total assets under management and administration
(2020: £367.2bn)

Asset Management

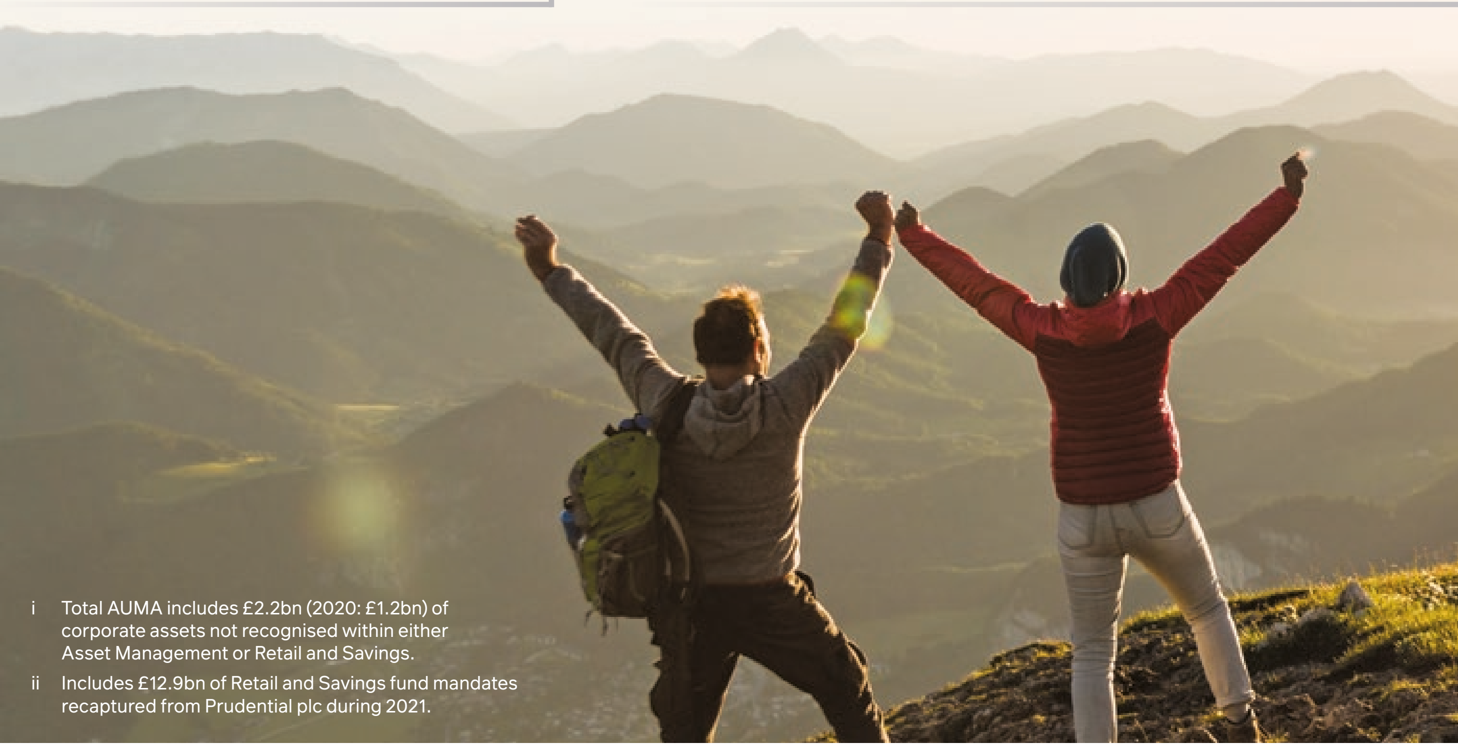
£156.7bn
third party assets managed
(2020: £144.4bn)

£168.6bn[ii]
Retail and Savings assets managed by our Asset Management business
(2020: £140.0bn)

Retail and Savings

£42.5bn
assets not managed by our Asset Management business
(2020: £81.6bn)

Read more in our business model pages 10-13
and business review pages 27-36



i Total AUMA includes £2.2bn (2020: £1.2bn) of corporate assets not recognised within either Asset Management or Retail and Savings.

ii Includes £12.9bn of Retail and Savings fund mandates recaptured from Prudential plc during 2021.

Our global reach

28
Markets globally

25
Offices worldwide

4
Continents

Who we serve

5.1m
Retail customers

800+
Institutional clients

Our brands

Our long-term savings business in the UK and Europe, founded in 1848.

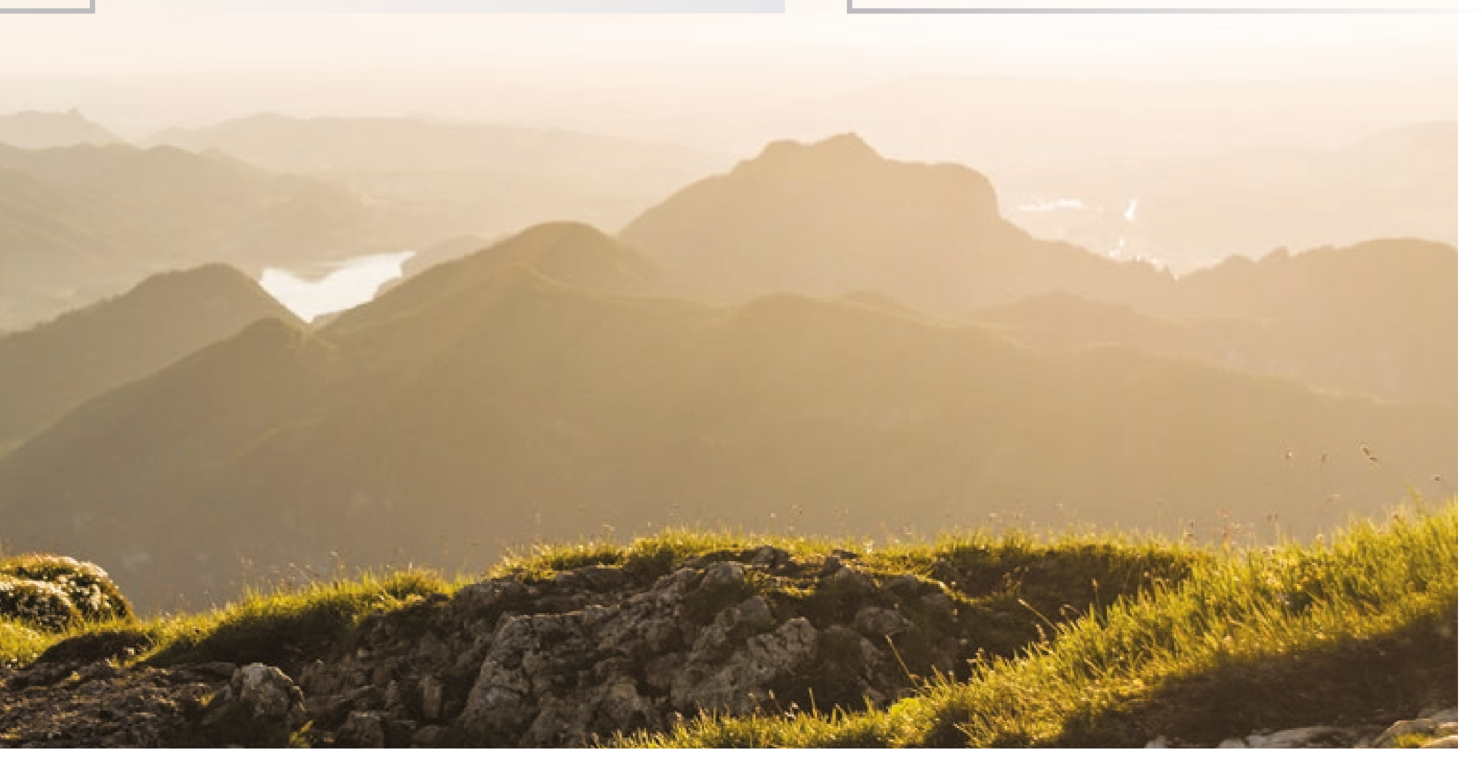
Our new integrated wealth management offering, launched in 2020.

Our international asset manager, established in 1931.

Our global real estate business, one of the world's largest commercial property investors.

Infracapital

Invests in and builds essential infrastructure that society needs.



Welcome to our 2021 Annual Report

As Interim Chair of your Company I am pleased to introduce our Annual Report and Accounts

Last year I wrote to you with optimism and hope for 2021, after a difficult 2020 for so many people, and I am pleased that it proved to be a much more positive year, thanks to the dedication of scientists, physicians and many others to develop new vaccines and treatments for COVID-19.

It has also been a positive year for our business which has delivered on demerger commitments while making exciting progress in a number of areas, both organically and through strategic acquisition. Particular highlights for me include our M&G Wealth business in the UK, where we have added new capabilities and customer choice through partnerships with Moneyfarm and Ignition, and added adviser scale through the acquisition of Sandringham; the launch of a smoothed savings proposition in Europe and the excellent performance of our institutional asset management business, all of which point to our success in shaping our business to meet our customers' changing needs.

We have also made good progress in sustainability, a key focus for 2021.

Our Catalyst strategy has already committed over £1.2 billion to sustainably-focused private assets, and just after the financial year closed we announced our plans to further bolster our capacity in this area by acquiring a controlling stake in responsAbility, a leading player in impact investing, based in Europe and specialising in emerging markets.

While science – and some signs of economic recovery – gave us many reasons to be more optimistic in 2021, life was still by no means back to normal for most of us. Work, education, healthcare and travel have been disrupted, and although spending more time at home can offer some benefits, the pandemic has affected mental health and well-being across society.

At times like this, I am very conscious of the responsibility that a business like M&G has to support our customers, colleagues and wider society. I am especially proud of how we have risen to the challenge this year: from the efforts of our customer service teams to improve how we serve and protect the vulnerable, to the work of our employee affinity groups to provide support and fellowship to other colleagues, and of course our broader work in the community.

The number of our colleagues volunteering in their local communities has almost doubled during 2021, and we have donated £4.6 million in charitable support. This included helping Habitat for Humanity to build four new COVID-19 care centres in India, working with Barnardo's in the UK to help young people vulnerable to digital exclusion to access remote learning, with devices and Wi-Fi connectivity; and continuing to support older people experiencing major life events and changes through our partnership with Age UK.

We have also, more recently, made an emergency corporate donation to our partners SOS Children's Villages and Habitat for Humanity, and through the British Red Cross to the Ukrainian Red Cross Society. All three charities are working to help Ukrainians with housing and other humanitarian aid following the Russian invasion. Our own colleagues in Poland are also working with Habitat with Humanity to support refugees arriving from Ukraine.

I would like to thank colleagues, partners and suppliers for serving and supporting our customers, clients and communities with such commitment throughout the year, even while facing challenges of their own.

> "We have delivered on our demerger commitments while making exciting progress in a number of areas, both organically and through strategic acquisition."
>
> **Fiona Clutterbuck**
> Interim Chair

> "Thank you to colleagues, partners and suppliers for serving and supporting our customers, clients and communities with such commitment, even while facing challenges of their own."
>
> **Fiona Clutterbuck**
> Interim Chair

However, I am acutely aware that some of our customers in our Retail and Savings business experienced unacceptable levels of service during the year. I would like to apologise sincerely, on behalf of the Board, to all those affected, and you can read about the actions we are taking to restore service levels in on page 59 of this report.

The Companies Act 2006 requires Directors to take into consideration the interests of stakeholders in their decision-making. We are complying with that requirement and have set out how our Directors have discharged this duty. You can read more in our Section 172 Statement on page 96.

Governance

In March 2021, we welcomed Clare Chapman to the Board as Non-Executive Director and Chair of the Remuneration Committee, following Robin Lawther's decision to step down due to other professional commitments. In December, we were delighted to announce that Dev Sanyal will be joining the Board on 16 May 2022. Dev's in-depth experience of sustainability and finance from his 32-year career at BP – where he led the company's entry into solar and offshore wind power – and from his current role as Chief Executive Officer of VARO Energy Group AG, will be invaluable to us as M&G continues to embed sustainability in everything we do.

There has also been a change to the executive membership of the Board. In September, Clare Bousfield stepped down from the Board and her role as Chief Financial Officer to become Managing Director of our Retail and Savings business. In January, we were pleased to announce the appointment of Kathryn McLeland as our new Chief Financial Officer and an Executive Director of the Board. Kathryn joins us in May from Barclays plc, where she has been Group Treasurer since 2018. While we will still be working closely with Clare in her important new role, on behalf of the Board I would like to thank her for her hard work and dedication as an Executive Director over the last three years, and in particular her contribution to M&G's successful demerger and listing in 2019.

Finally, while I am writing to you as Interim Chair of M&G plc, having reviewed and signed off our 2021 Annual Report and Accounts, we recently announced Edward Braham will become the new Chair of M&G plc from 14 March 2022. We searched for some time for the right Chair to succeed Mike Evans, who stepped down for health reasons last year, and were delighted Edward was able to join us in March. Edward brings vast experience from his long career at Freshfields Bruckhaus Deringer and I am very much looking forward to working with him as I return to my role as Senior Independent Director on the Board.

It has been a great privilege to serve the Company as Interim Chair for much of M&G plc's first two years as an independent business, and I would like to thank my fellow Board members and all colleagues for their support.

Dividend and capital return

The Board's policy is to pay stable or increasing dividends over time. We were pleased to be able to maintain our dividend policy in 2021, recognising the importance of dividend income to many long-term savers and investors during the pandemic. Having paid an Interim dividend in September 2021 of 6.1 pence per share, the Board proposes a second interim dividend in respect of 2021 of 12.2 pence per share. Payable in April 2022, this will maintain the total ordinary dividend at the previous year's level. In addition, we have announced our intention to return £500 million to shareholders by way of a share buy-back programme, which is expected to start shortly and to complete within 12 months.

Thank you to all our shareholders, customers, clients, colleagues and partners for your support this year, and best wishes to you all in 2022.

Fiona Clutterbuck
Interim Chair

Message from John Foley

While the world is still far from normal, we've remained focused on delivering our strategic commitments to customers, clients and shareholders

It's safe to say that when we demerged from Prudential plc in October 2019, none of us anticipated that our first two full years of life as an independent company would take place in the shadow of a global pandemic and more recently, the tragedy of the Russian invasion of Ukraine.

It is a testament to the resilience of our business model and the determination of our people that we have nonetheless delivered another robust performance, demonstrating our consistent strength in capital generation and increasing our shareholder Solvency II ratio.

We've delivered on our commitments to shareholders at demerger, and are now making good progress on some of our newer commitments such as our pivot to sustainability, and on the recovery of our retail asset management business.

Meeting our commitments

In 2019 we set ourselves ambitious targets. The most significant of these was a three-year total capital generation target of £2.2 billion – which we have achieved a year early with a total of £2.8 billion generated since January 2020.

We also promised shareholders a stable or increasing dividend policy, and we have kept that promise throughout the pandemic. With the 2021 second interim dividend of 12.2 pence per share, we will have returned 52 pence per share to shareholders in dividends since 2019.

Given the strength of our capital position, and our confidence in the capital generative nature of our business, we are pleased to announce our intention to return £500 million to shareholders by way of a share buy-back programme, which is expected to start shortly and to complete within 12 months.

Together, the interim dividend and share buy-back programme will result in us returning a total of £1.8 billion of capital generated to shareholders since the establishment of M&G as an independent listed company just over two years ago, roughly equivalent to 32% of the Company's market capitalisation at the time of demerger.

We are also continuing to modernise our business, progressing with our five-year plan to invest in customer experience, scalability, efficiency and capability while also delivering our shareholder annual run rate cost savings of £145 million. I am pleased to say we have also delivered this savings target a year early.

However, in our legacy business the complexity and scale of replacing old systems mean some of our customers received poor levels of service in 2021. We are sincerely sorry for their experiences and we have made a significant investment to get the issues resolved.

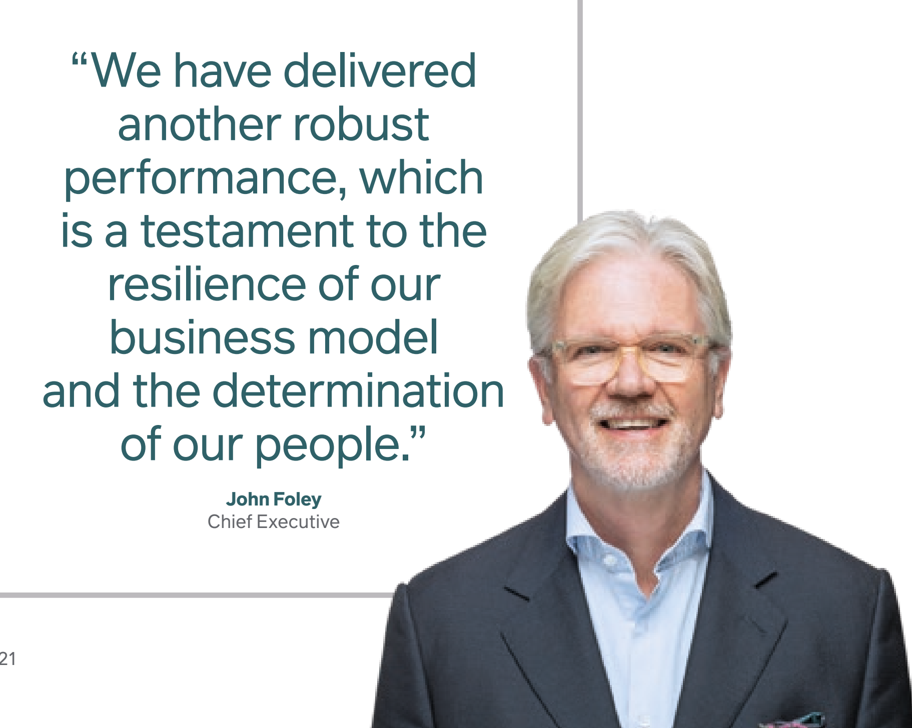
Progress towards sustainable growth

At the end of the year, our total assets under management and administration were £370.0 billion, a £2.8 billion increase from 2020. While market conditions have not always been easy during 2021, we have taken every opportunity to execute on our plan to return to sustainable growth.

Institutional asset management had an excellent year, with assets under management up and net client inflows of £5.8 billion, largely due to growth in mandates from European financial institutions.

"We have delivered another robust performance, which is a testament to the resilience of our business model and the determination of our people."

John Foley
Chief Executive



One M&G

Building and funding homes and communities

M&G finances homes of all kinds – from social housing and shared ownership, to private rental developments and sustainable houses. What they have in common is our belief in creating good quality homes and strong communities. We think giving people what they need from their homes now and in the future makes sense for the environment, for our business, and for our customers, who include millions of pensioners, savers and Prudential policyholders.

With more than 20 years of experience in the sector, M&G is now a leader in social housing lending, helping to tackle the shortage of homes in the UK. M&G's social housing team recently financed 180 homes at The Mill near Cardiff city centre – let through a combination of market rent and discounted or social rent.

The development has transformed a derelict piece of land – where a former paper mill used to stand – to a sustainable, residential neighbourhood. "We've worked hard to create a sense of community, with a village centre, green space and community facilities," says David Ward – CEO of Tirion Homes, the not-for-profit housing company that collaborated with M&G on the project.

The development also includes several low carbon homes, using technology such as solar panels, heat pumps and battery and thermal storage. "Having tested them out here, we're hoping to build many more of these in the future," David adds.

Building on our strong market position in the UK to internationalise this business has been, and remains, a key strategic priority for us. In January 2022, we announced plans to acquire a controlling stake in responsAbility, a Swiss-based asset manager that has been specialising in emerging market impact investing for two decades. We are seeing growing demand for impact products from clients and believe we have a great opportunity to build on our existing capability in this space.

Eighteen months ago we announced a series of measures to improve investment outcomes and offer better value to our retail asset management customers and clients. We are seeing the positive effects of these steps on fund performance and flows, which were much improved during the year, with international wholesale business returning to growth in the second half.

> "We have launched Future+, a new smoothed savings proposition similar to PruFund, in two European wholesale markets."

At home, net client outflows from PruFund, our smoothed solution for UK retail savers, were £1.4 billion, due to competitive pressure and pandemic related restrictions on face-to-face advice. During the year, we launched our new PruFund Planet proposition, giving customers the opportunity to access the same smoothed returns and risk profile as PruFund with additional positive environmental and societal outcomes from their investment. We are also delighted to have launched Future+, a new smoothed savings proposition similar to PruFund, in two European wholesale markets.

M&G Wealth

At a time of rising inflation and negative real interest rates, many people are increasingly concerned about financial planning and need access to good quality, affordable financial advice.

Eighteen months ago, we launched M&G Wealth, a new wealth management business to meet the rising demand for investment advice and wealth solutions. We continued to invest in this business, with the completion of our acquisition of Sandringham Financial Partners in January 2022, to accelerate the growth of our advisory capability across the UK.

Sandringham brings more than £2.5 billion of assets under advice to M&G Wealth's existing advice, platform and investment businesses, and relationships with around 180 IFA Partners acting on behalf of more than 10,000 individual clients.

While many customers still want in-person investment advice, we cannot ignore the rapid growth of digital investment services, which now account for almost one in five UK direct customers. To capitalise on this growing segment, we have launched a hybrid advice proposition for our advised customers with digital specialist Ignition, and in January 2022 also announced a new partnership with digital investment specialist Moneyfarm. This will provide technology and guidance to support the development of a new M&G Wealth direct digital investment service, and also potentially offer us opportunities to enter the European direct investment market. To complete our offering, we have also acquired TCF Investment, a provider of model portfolio services.

South Africa

During the year, we took advantage of an opportunity to add to our 49.99% stake in our South African associate, Prudential Portfolio Managers South Africa (PPMSA), to become majority shareholders in the business, which in November was rebranded M&G South Africa. South Africa joins Paris, Chicago, Singapore, London and shortly, Zurich, as one of our global investment hubs, and we look forward to the perspectives and opportunities our colleagues there will contribute, as we help them support their clients with our global capabilities. We are delighted to welcome the teams in Johannesburg and Cape Town.

Continuing to embed sustainability

Last year, we committed to embedding sustainability across everything we do in our business, to help us deliver better long-term outcomes for our customers and clients, and stronger more resilient returns to shareholders.

In May 2021, we published our 10 point Sustainability Plan, which sets out how we intend to achieve this, covering everything from our targets to be carbon net zero by 2030 as a business and by 2050 as an investor, to how we are aligning our people behind our ambition. You can read more about this on pages 38-43, along with details of our latest climate-related disclosures on page 44.

One of the stand-out achievements in 2021 has been the growth in our range of Planet+ sustainability-focused investment products to 20 funds, covering a wide variety of themes and asset classes. Some of these are brand new strategies, such as the M&G Better Health Solutions Fund, while others have been part of our major programme to convert our SICAV fund range to become SFDR Article 8 and 9-classified.

Another sustainability highlight has been the first year of our Catalyst strategy, which is investing up to £5 billion from the With-Profits Fund into innovative privately-owned businesses working to create a more sustainable world.

By the end of 2021, Catalyst had deployed over £651 million in investments and committed a further £633 million into sustainable solutions such as carbon neutral transport, recycled thermoplastics, and carbon capture and storage.

Executive and organisational changes

To position us for our next phase of strategic delivery, we took the decision in 2021 to restructure part of our organisation, bringing the Heritage, Wealth and other savings operations together to form our Retail and Savings business – a change you will see reflected in our segmental reporting for this year's financial results.

Clare Bousfield, our Chief Financial Officer since 2018, has moved to a new role as Managing Director of the Retail and Savings business, while Jack Daniels continues to lead our Asset Management business. A new Chief Financial Officer, Kathryn McLeland, will join us from Barclays plc in May.

Following the sad and untimely death of Roddy Thomson in the spring, we have appointed Vanessa Murden to fill his role as Chief Operating Officer, who will join us from the Lloyds Banking Group in May.

I look forward to welcoming Kathryn and Vanessa, subject to regulatory approval, and would like to record my thanks to Clare for her great support to me as Chief Financial Officer.

I am also delighted that Edward Braham, formerly the senior partner at Freshfields Bruckhaus Deringer, has been appointed Chair of the Board on 14 March 2022. I would like to put on record my gratitude to Fiona Clutterbuck who has ably served as Interim Chair over the past 15 months and now returns to her role as Senior Independent Director.

Outlook

I am pleased with the momentum we are seeing across our business towards sustainable growth, but there is still a considerable amount of work to do.

While we press ahead with exciting digital investment and advice opportunities, we know there is still much more to do on modernising and digitalising our legacy business.

There is also much more to do on sustainability: navigating the complex issues involved in finding the surest path to net zero; improving the sustainability reporting that gives our customers confidence in our delivery; and developing meaningful approaches as an investor to global challenges such as biodiversity, water security and social inequality.

We have demonstrated exceptionally disciplined capital management since demerger, and we need to continue this. Having already achieved our three-year total cumulative capital generation target of £2.2 billion to the end of 2022, we are committed to meet a £2.5 billion operating capital generation target by the end of 2024. This comfortably covers expected dividend costs, and will allow us to continue to deploy capital to scale our capabilities in growing markets with resilient and attractive margins.

Thanks

I would like to thank the Board, the executive team, and my colleagues at M&G for their hard work and support during what has been another challenging year for so many, but also a very rewarding one in terms of delivery and forward momentum. I am confident that these collective efforts will stand us in excellent stead to continue to deliver for our customers, clients and shareholders in 2022.

John Foley
Chief Executive

"It's good to see so many companies committing to do something about climate change. We're at a pivotal moment, and I want to move with the times – and hopefully be rewarded for investing early in sustainable solutions."

Sian Hodson Kilroy
M&G customer

One M&G

Helping our customers to invest for a sustainable future

Surrey-based customer Sian Hodson Kilroy, a 27-year-old sales co-ordinator, started investing with M&G last year. After the widespread switch to home working in 2020, Sian chose to invest the money she was saving on petrol in a way that could help the planet – by investing in the M&G Sustainable Multi Asset Balanced Fund.

Sian grew up learning about the threat of climate change at school and university and is pleased to be investing for her future in a way that will help contribute to a better world.

What we do and how we do it

Our business model

Working together as an asset manager and an asset owner, we support customers and clients along the savings and investments value chain in a sustainable way.

Our new operating segments, Asset Management and Retail and Savings, reflect this model.

Asset Management

"We aim to deliver innovative solutions to our clients through a high value, active approach to investing."

Jonathan (Jack) Daniels
Managing Director,
Asset Management

£315m
Adjusted operating profit before tax

£325.3bn[i]
Assets under management and administration

i Includes internal AUMA of £168.6bn

What we do:

- We provide a range of investment solutions to retail and institutional clients globally.
- Our solutions range from mutual funds to bespoke mandates, spanning both public and private assets, with a strong focus on sustainability.

How we do it:

- Our approach to investing is active, thoughtful, long-term and responsible.
- We invest globally, deploying resources and expertise across geographies to deliver superior outcomes to our customers.
- In the UK, we serve retail customers through independent financial advisers and M&G Wealth.
- Internationally, we partner with local and global banks, often co-designing investment propositions.
- We typically arrange mandates with institutional clients directly or in cooperation with specialist consultants.
- We continually invest in technology to interact more easily and effectively with our clients.

Retail and Savings

"We partner with customers to address their investment needs, leveraging our strong asset management capabilities."

Clare Bousfield
Managing Director,
Retail and Savings

£660m
Adjusted operating profit before tax

£211.1bn
Assets under management and administration

What we do:

- Our Wealth proposition offers advice, platform, and investment services, including smoothed solutions backed by our leading With-Profits Fund.
- Our Heritage business comprises annuities and traditional with-profits policies. Although both products are closed to new customers, they offer a source of dependable income and stable capital investment.

How we do it:

- We offer advice and provide a digital platform to M&G Wealth customers so they can make informed investment decisions and manage their savings.
- We deliver smoothed solutions across Wealth and Heritage, powered by our £143 billion With-Profits Fund.
- We carefully manage investments to generate the regular income we agreed to pay our Heritage annuity customers.
- We manage our operations efficiently to improve customer outcomes.

Sustainability in everything we do

A well governed business runs in a sustainable way, delivers stronger, more resilient investment returns in the long term for customers, clients and shareholders, and better outcomes for society and the environment. That's why we incorporate sustainable thinking into everything we do – from the way we invest, to the way we operate our offices and interact with our customers and clients.

Read more about Sustainability at M&G
Pages 38-43

What makes us different

Strong business model

Being both asset manager and asset owner, we have a deep understanding of the needs of retail customers and institutional clients. Through this understanding, we develop new propositions by rapidly deploying seed capital from the asset owner, aiming to generate superior returns and build a track record to attract third party assets. Combining the reach of the asset manager and the asset owner, we can support customers and clients through their entire investments and savings journeys, both in the UK and internationally.

High value investment solutions

We look for the best investment opportunities across a wide range of asset classes, to address customers' and clients' needs. Our comprehensive range of differentiated and high value investment solutions is available to customers and clients through their preferred channel, platform and tax wrapper.

Proven investment capabilities

We are an international active asset manager, with one of the largest private asset franchises in Europe. Our scale and capabilities are not easy to replicate and are well-suited to capturing value in the premium segments of the growing savings and investments market.

Strong distribution and customer engagement

We have a multi-channel international distribution network with a number of established brands, including M&G Investments and Prudential UK and Europe. Our products are currently being sold in 28 markets from 25 locations. We provide investment solutions through both direct and intermediated channels in the UK. We also benefit from a distribution network in Europe, and leverage strategic partnerships with global and local banks outside of Europe.

Our financial strength

We have a strong balance sheet underpinned by a sound and resilient shareholder Solvency II ratio of 218% and total capital generation of £1.8 billion in 2021. One of our priorities is to preserve our financial strength while delivering on the commitments to all of our stakeholders.

The outcomes we aim to deliver to our key stakeholders

Customers and clients

Strong investment outcomes delivered through innovative propositions that address their financial needs.

Colleagues

A great place to work. Growth and talent development opportunities. At the forefront of new ways of working.

Investors

Sustainable, attractive returns.

Balance of profitable growth and dividends.

Communities and charities

Resilient, inclusive communities where people can live the lives they want.

More information on all our stakeholders
Pages 96-101

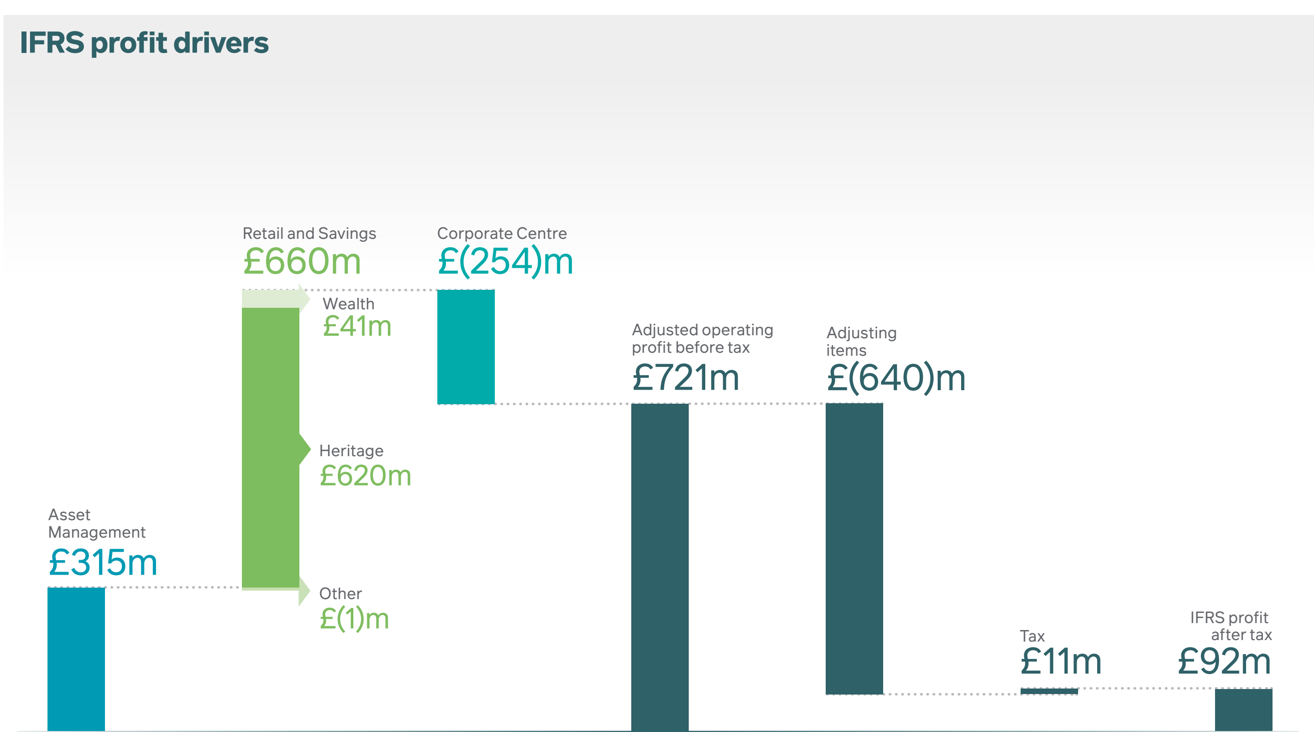
How we create shareholder value

IFRS profit after tax

Profit after tax is a key performance measure as it demonstrates to our shareholders the financial performance of M&G plc during the year on an IFRS basis. Adjusted operating profit before tax is also a key performance measure as it demonstrates M&G plc's longer-term performance and is less affected by short-term market volatility and non-recurring items than IFRS profit. IFRS profit after tax is adjusted operating profit before tax plus adjusting items and tax.

More on adjusted operating profit before tax
Page 26

IFRS profit drivers



Asset Management

This business manages assets on behalf of external retail customers and institutional clients, as well as most of our own internal funds. We generate revenues by charging fees which are typically based on the level of assets under management. The fee level will depend on the type and size of customer or client, and the type of assets being managed. Performance fees and carried interest also contribute to revenues, but tend to be more volatile in nature. In addition, the Asset Management result includes investment income realised on seed capital. Adjusted operating profit before tax is the margin remaining after deducting operating expenses from revenue earned.

Retail and Savings – Wealth

Our Wealth business generates revenues by charging fees on our advice platform and investment solution services. Adjusted operating profit before tax is the margin remaining after deducting operating expenses from revenue earned.

Our Wealth business also generates earnings through our PruFund offering, which is powered by our unique £143 billion With-Profits Fund. Typically, we structure solutions on a 90:10 basis, which means our customers receive 90% of the total returns generated by the fund, with the remaining 10% allocated to shareholders. The portion allocated to shareholders is recognised as profit when customers access their savings, meaning profit tends to arise at the end of the contract. We refer to this profit as the shareholder transfer, and we enter into hedging activities to reduce volatility in this profit emergence.

Retail and Savings – Heritage

Our book of annuities is a business whereby our customers have paid us a lump sum in exchange for a regular stream of retirement income for the rest of their lives. We invest these lump sums in assets which generate cash flows closely matched to the expected future payments. The expected value of all future payments is booked as a liability on the balance sheet with a margin of prudence. The main recurring sources of profit are the investment return on assets in excess of those allocated to match liabilities, and the release of prudent margins as the business runs off. Changes to assumptions over time can increase or decrease the liability, resulting in a gain or loss. Gains or losses may also be generated by changes in asset allocation or trading, and by other provision and reserve movements.

The Heritage business also includes traditional with-profits policies, which are closed to new customers. We generate earnings in the same way we do for PruFund in Wealth.

Retail and Savings – Other

Other includes profits and losses from service entity functions and international operations.

Corporate Centre

The Corporate Centre includes the expenses relating to the operation of our Head Office functions, and interest costs related to the £3.2 billion nominal value of debt in issue.

Adjusting items and tax

Two significant components are excluded from adjusted operating profit before tax.

Firstly, short-term investment fluctuations which, for our annuity business, include credit experience variances and fair value movements on surplus assets. For our with-profits business, this includes fair value movements on instruments held today to hedge shareholder transfers expected to emerge in the future. Short term fluctuations are closely linked to our hedging strategy and were significantly negative in 2021, reflecting the reversal of gains seen in 2020, as equity markets improved and interest rates rose.

The second key component is one-off M&G plc restructuring and transformation costs.

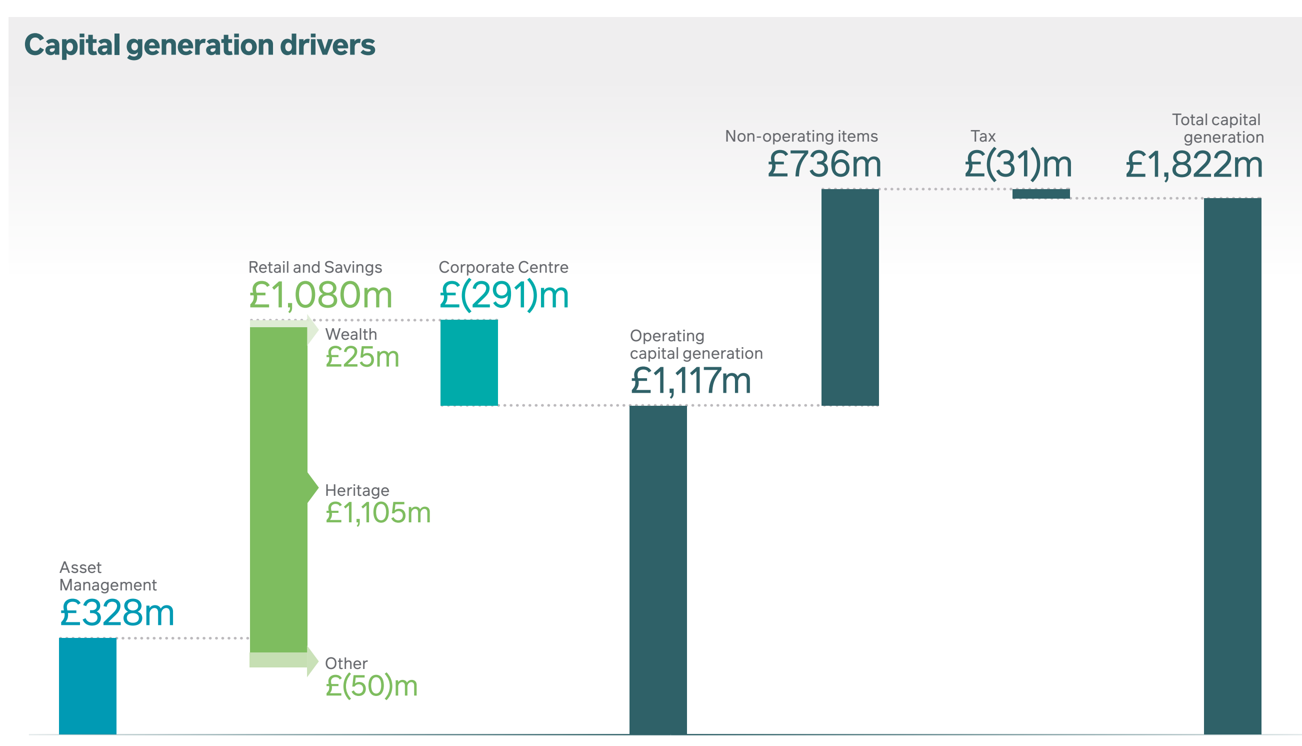
Further detail on our adjusted operating profit before tax methodology can be found on page 202.

Total capital generation

In addition to profit measures we also consider capital generation as a key performance measure. Capital generation analyses the movement in surplus regulatory capital, as measured by the Solvency II regulations, before dividends and other capital movements, such as corporate transactions. The movement in surplus is driven by both the change in available capital (known as own funds under Solvency II), and the change in regulatory capital requirements. Capital generation is integral to the running and monitoring of our business and ultimately our dividend policy. We analyse the drivers of capital generation in a similar way to IFRS profit after tax, considering both operating capital generation and total capital generation as key performance measures.

More on capital generation
Page 26

Capital generation drivers



Asset Management

The key components of Asset Management operating capital generation are the same as adjusted operating profit. The difference between adjusted operating profit and operating capital generation is usually expected to be small, and generally reflects the movement in regulatory capital requirements which is not captured within adjusted operating profit.

Retail and Savings – Wealth

In our Wealth business, the key drivers of operating capital generation for our advice platform and investment solutions are the same as those described for adjusted operating profit. We usually expect differences in quantum to be relatively small and relate to movement in regulatory capital requirements and other valuation differences.

For our PruFund product, as Solvency II is a market-based framework, instead of recognising profit towards the end of the contracts, the future expected profit – which we refer to as the present value of shareholder transfers – contributes to our available capital. We also hold a corresponding capital requirement reflecting the risks inherent within those future transfers.

Operating capital generation in the year reflects the movement in these two items, before tax and other non-operating items. The movement in the value of the future shareholder transfers is driven primarily by the emergence of expected real world returns, instead of the risk-free rate required by Solvency II. The change in capital requirements is the net of capital released as older business matures, capital requirements created when new business is written, and changes in our hedging programme.

Retail and Savings – Heritage

The main value drivers of operating capital generation for our book of annuities are the same as adjusted operating profit, although the calibration of the assumptions typically differs. In normal circumstances, we don't expect the capital requirements for the annuity business to be used, so these are released as the business runs off over time. As annuities are relatively capital intensive, we generally expect operating capital generation to be higher than adjusted operating profit.

For the traditional with-profit policies, the key component of operating capital generation is the same as for PruFund in Wealth. The change in capital requirements for these policies is driven by the net of capital released as the business matures, and changes in our hedging programme.

Retail and Savings – Other

Drivers of capital generation from Other are similar to those described for adjusted operating profit. Differences can arise in quantum due to different valuation bases between Solvency II and IFRS, as well as movements in regulatory capital requirements.

Corporate Centre

The impact of our Head Office and debt interest costs under Solvency II are comparable to adjusted operating profit, although some differences do arise, primarily in relation to the Solvency II treatment of the debt, the inclusion of regulatory capital requirements and other valuation differences.

Non-operating items and tax

The nature of elements excluded from operating capital generation are similar to the "adjusting items" in IFRS profit, but the impact, particularly with respect to market movements, can differ significantly, as is the case in 2021. This is mostly due to Solvency II also reflecting market movements in our regulatory capital requirements, along with the present value of shareholder transfers for with-profits business.

Tax is presented on a Solvency II basis and therefore typically differs from IFRS tax.

Opportunities for growth

Macro trends drive changes in the markets in which we operate, generating significant growth opportunities for us

The market forces shaping the global savings and investments industry

Long-term structural changes are driving demand for active, high value savings and investments. The savings and investments industry is large, with €25 trillion of assets in Europe alone. We expect this to increase in the coming years, driven by four long-term economic and demographic trends:

Ageing population

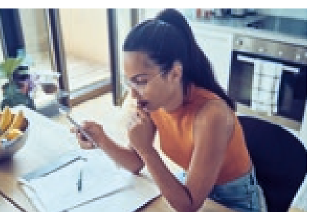
Improvements in medicine, diet and working conditions are enabling most of us to live longer lives. In the European Union, the number of people aged 65 or over is expected to increase by more than 40 million over the next 40 years, according to Eurostat. That's a total of around 150 million retirees, equivalent to approximately 30% of the region's total population.

Greater life expectancy means that everyone has to save more in order to fund a longer retirement. At the same time, the ever increasing old-age dependency ratio (the ratio of people beyond working age to those of working age) reduces the resources available to governments to fund public pension schemes. As a result, more countries are deferring the statutory retirement age, which in turn is leading to a widening savings gap.

40m

In the European Union, the number of people aged 65 or over is expected to increase by more than 40 million over the next 40 years.

Source: European Commission



Savings gap

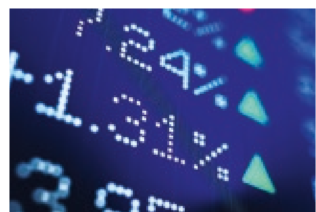
Ageing societies place greater financial strain on both retirees and on governments supporting them. Across the world, this is leading to a widening gap between the amount that people have saved and the amount they actually need in order to maintain a comfortable retirement.

In the UK alone, the World Economic Forum estimates this gap will grow from an already substantial $8 trillion in 2015, to $33 trillion by 2050. It is therefore increasingly important that people start saving earlier, save more and invest in assets which generate good investment returns in the longer term.

Trusted partners like M&G can help people achieve these goals and live the lives that they want.

$33tn

The World Economic Forum estimates the gap between the amount that people have saved and the amount they actually need in order to maintain a comfortable retirement will grow to $33 trillion by 2050.



Cash yields

In Europe, there are over €12 trillion of deposits sitting idle in cash – some £1.8 trillion, in the UK alone. Household cash savings increased since the beginning of the pandemic, as restrictions on economic activity and the high uncertainty about the pandemic and future economic prospects strengthened the reasons for people to save.

The yields on cash deposits are typically low or negative in real terms, due to the effects of rising inflation. This increases the need for alternative investment options for savers, which combine the potential for better returns than cash with less risk than full exposure to stock market volatility.

Our products are designed to put savers' money to work.

€12tn

In Europe, there are over €12 trillion of deposits sitting idle in cash – some £1.8 trillion, in the UK alone.

Source: European Central Bank

Green economy

Sustainability has become an imperative in the savings and investments industry. This isn't just a market trend, it's the right thing to do for our planet and society. Financial institutions play a key role in supporting economic growth while reducing pressures on the environment and considering social and governance aspects.

The transition to a greener economy needs large amounts of capital. This means growing opportunities to invest in companies and projects which will transform our environment and society for the better, while also offering the potential for sustainable financial returns.

We offer a diverse range of sustainable funds and products to help people manage and grow their savings while making the world a little better.

$19tn

Estimated ESG invested assets by 2025.

Source: ESG and sustainable investment outlook, Broadridge

Asset Management

Alternative and private assets

In recent years the alternative investments industry, which includes investments in private equity, private debt and private real assets, has experienced significant growth in the value of assets under management as a result of strong net flows and increasing allocations by investors. In the current low interest rate environment, institutional investors continue to turn to alternatives to diversify their strategies and generate greater returns for their portfolios by capturing the illiquidity premium.

The value of global assets under management run by alternative asset managers has grown from $7.3 trillion in 2015 to $10.7 trillion in 2020, and is expected to grow to $17.2 trillion by 2025, according to Preqin. Private debt, real estate and infrastructure, three key areas of focus of our asset management business, are expected to see continued growth over the same period.

+60%

Estimated growth in global alternatives and private AUMA
Source: Future of Alternatives 2025 report, Preqin

Sustainable investments

Environmental, social and governance (ESG) factors are becoming some of the most important investment criteria for both retail customers and institutional clients, leading to a significant increase in demand for responsible and sustainable investments. According to the latest estimates from Broadridge, the ESG assets could grow globally from $7.8 trillion at end-September 2021 to $19 trillion by 2025.

Sustainable investments already account for a dominant share of funds net inflows, especially in Europe, where net inflows in ESG labelled funds outpaced net flows in non-ESG funds among actively managed strategies in 2021. This trend is expected to further strengthen given the growing influence of regulation in the region, such as the Sustainable Finance Disclosure Regulation (SFDR).

$9tn

Estimated ESG labelled funds net new flows by 2030
Source: ESG and sustainable investment outlook, Broadridge

Retail and Savings

Investments platforms

In recent years, investor demand in the UK has evolved towards more customised and holistic solutions across a broader product set to accommodate specific objectives and constraints. This trend has been further accelerated by the social distancing rules and remote working conditions introduced during the pandemic.

This requires wealth managers to move beyond constructing generic portfolios comprising traditional packaged products into greater customisation, using technology-driven distribution platforms to deliver their enhanced propositions. The platform market in the UK reached AUMA of £683 billion at end-June 2021, up 22% from the same period in the previous year, while net inflows grew by 40% to £15.5 billion, according to Langcat.

£683bn

UK platform market size at end-June 2021
Source: Market Insight, Langcat

Financial advice

The pandemic has impacted household finances in two ways. On one hand, it has increased the number of people with low financial resilience by 3.5 million, according to the FCA statistics, but at the same time created 6 million ‘accidental savers’ according to a report by financial consultancy LCP. In addition to this, the disruption caused by changing taxes and allowances has created a very complex path for individuals to navigate, driving increased need for advice.

This is against a backdrop of UK Pension Freedoms, which had already created an increased choice and flexibility for individuals to manage their long-term savings. As a result, in 2021, the number of active clients seeking financial advice in the UK saw a renewed boost, after a tepid 2020.

+65%

Number of active clients seeking financial advice in 2021 vs. 2020
Source: NextWealth, Financial Advice Business Benchmarks 2021

Building for long-term growth...

by investing in technologies and capabilities.

One M&G

Helping our customers to bridge the financial advice gap

In December 2021, M&G Wealth launched MAP, a new low-cost hybrid advice service to support customers at retirement. Advice is still provided by a human adviser but underpinned by the digital automation of the reporting, information gathering and regulatory processes. This pioneering blend of digital technology and human advice allows us to deliver outcomes much more efficiently, giving UK customers access to financial advice in an understandable, affordable and sustainable way.

We're also developing the financial advisers of the future at the M&G Wealth Advice Academy. Launched in September 2021, the Academy offers candidates a structured training and development programme that gives trainees the relevant knowledge, skills and behaviours needed to become a successful adviser, creating opportunities for more people to get the advice they need.

> "Our whole focus in M&G Wealth is to enable our customers to have the best possible financial futures by building a planet friendly advice service which is accessible to and inclusive for all."
>
> **Richard Caldicott**
> Deputy CEO, M&G Wealth Advice

Focusing on sustainable growth

Our strategy supports our vision to become the best-loved and most successful savings and investment business

Our growth strategy is to leverage our complementary capabilities as an asset manager and an asset owner, capitalising on long-term economic trends, to deliver superior outcomes for customers and clients. At the same time, we are continuing on the journey to pivot the entire business to sustainable investing, so that as the stewards of the long-term savings of millions of people, we can make an even bigger difference to people and the planet.

The execution of our strategy is based on our key strategic priorities, underpinned by the One M&G strategic priority, which expresses our alignment to a single purpose, driving our values of care and integrity and our focus on sustainability.

These strategic priorities cover our four growth markets of the UK, Europe, other International markets in Asia, the US and Africa, and Institutional Asset Management. They also include our Heritage business, a portfolio of annuities and traditional with-profits policies that are closed to new business.

We also have our Active Capital Management and Operational Efficiency strategic priority. The primary focus of our capital management framework is to maintain financial strength and reward shareholders with attractive returns. This is achieved through actively managing M&G plc's solvency position and the quality of capital held.

Our strategic priorities provide an important framework for reporting progress against our ambitions, which is communicated to the Board on a quarterly basis via a set of key performance indicators and accompanying narrative to describe major initiatives supporting execution.

We have made good progress against our strategic priorities in 2021. We continue to realise the benefit of collaboration across the business as One M&G, launching new investment strategies at scale with seed capital from the With-Profits Fund, and reaching new milestones in our ambition to embed sustainability in everything we do.

Our institutional business has had another successful year with strong net client inflows, while in Europe and our other international markets flows from distribution through wholesale partners returned to a net positive position in the second half of 2021.

In the UK, we have focused on the development of M&G Wealth, acquiring adviser firm Sandringham and launching a hybrid-advice service through our partnership with Ignition.

More recently, we announced in January 2022 the acquisition of responsAbility, a leading impact investor with expertise in institutional private assets, emerging markets and sustainability; and a new partnership between M&G Wealth and Moneyfarm, to launch a direct investment service for UK consumers. Both of these initiatives support our strategy, bringing new capabilities to our business. To complete our offering, we have also acquired TCF Investment, a provider of model portfolio services.

More on Active Capital Management and Operational Efficiency
Page 31

Our strategic priorities

Strategy at a glance

Our strategic priorities	Description
One M&G Operating segments: AM R&S	Turn collaboration into competitive advantage and embed sustainability in everything we do – Foster the culture of One M&G – Promote diversity and inclusion – Achieve our net zero carbon emissions goals for our business by 2030 at latest, and by 2050 for our investment portfolio
Revitalise UK Operating segments: AM R&S	Reinvigorate our business in our largest market to meet changing customer and client needs – Develop and grow M&G Wealth – Rejuvenate our retail asset management business – Create sustainable with-profits investments
Expand Institutional Operating segment: AM	Broaden our capabilities and internationalise – Leverage relationships with global pension clients – Continue to build pipeline of innovative client solutions – Grow private assets
Grow Europe Operating segments: AM R&S	Build on the success of our trusted partner approach and strong brand – Restore our retail asset management fund performance – Enhance investment solutions – Bring smoothed solutions to European clients
Build International Operating segment: AM	Focused expansion in Asia, the Americas and Africa – Develop Asia distribution presence and local asset management capabilities – Build out distribution in the Americas – Embed and nurture acquired Africa operations
Protect Heritage Operating segment: R&S	Improve customer outcomes and increase resilience – Protect and increase resilience – Deliver improved customer service outcomes

Performance Highlights

35%
Female representation among the executive committee and their direct reports
(2020: 30%)

$1,769\ tCO_2e$
Direct carbon emissions: Scope 1 and 2[i]
(2020: $2,916\ tCO_2e$)

75%
Employee sustainable engagement score
(2020: 80%)

We have continued to focus on making progress towards our diversity and inclusion goals and sustainability targets, with improvements in both female representation and direct carbon emissions, respectively. Sustainable Engagement was again positive at 75%, albeit lower than the 2020 outcome. The continued impact of organisational and transformational change on the workforce was a key factor in 2021 results, as was our approach to both the COVID-19 pandemic and future ways of working.

i When reporting totals, market-based emissions are used. Note that the 2020 figure has been restated, see page 49 for details.

Wealth and UK Asset Management

£104bn
AUMA
(2020: £102bn)

£3.9bn
Net client outflow
(2020: £1.7bn outflow)

Our UK retail asset management business is beginning to see the benefits of our strategic focus and continued investment, with net client outflows reducing in the second half of 2021 following improvements in performance, the launch of new fund strategies and the pricing changes across the fund range. Sales of our flagship PruFund proposition remained subdued in 2021 as a result of pandemic related restrictions on face-to-face advice and other changes in market dynamics.

Institutional Asset Management

£103bn
AUMA
(2020: £86bn AUMA)

£5.8bn
Net client inflow
(2020: £5.1bn inflow)

The institutional business has enjoyed another successful year, with net client inflows totalling over £5 billion, and assets under management increasing to £103 billion. This reflects our proven long-term trusted partner model, together with new client wins after investment in expertise to serve European insurers and entry into the German spezialfonds market.

European Retail Asset Management and Savings

£37bn
AUMA
(2020: £37bn)

£0.8bn
Net client outflow
(2020: £8.5bn outflow)

European wholesale asset management flows have seen a significant improvement, with net client flows turning positive again in the second half of 2021 after significant outflows in recent prior periods. This improvement is related to the focus on improving investment performance, the development and launch of in demand investment strategies, and proactive steps to deliver investment propositions with more sustainable outcomes.

Retail Asset Management in Asia, the Americas and Africa

£5bn
AUMA
(2020: £4bn)

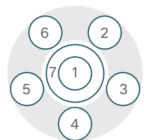
£0.5bn
Net client outflow
(2020: £0.8bn outflow)

Our International retail business has benefited from the full inclusion of our Africa operations for the first time, after we secured a controlling stake in 2021. Flows also reflect continued progress in building out our wholesale distribution through the extension to the region of relationships with our global bank partners.

3.7/1,000
Heritage Complaints Ratio (12-month rolling basis)
(2020: 2.8/1,000)

+1
Heritage Net Promoter Score
(2020: +8)

The key performance metrics for our in-force annuity and traditional with-profits portfolios deteriorated through 2021, as a result of service level disruption from operational changes to modernise the business, which were exacerbated by lockdown restrictions. We have implemented a plan to return service levels to those expected by our customers, and new complaint volumes are now starting to fall.



Our strategic priorities

1. One M&G
2. Revitalise UK
3. Expand Institutional
4. Grow Europe
5. Build International
6. Protect Heritage
7. Active Capital Management and Operational Efficiency

More on Active Capital Management and Operational Efficiency
Page 31

January to March

Catalyst

We launched Catalyst, a global investment team with a £5 billion mandate from the Prudential With-Profits Fund to invest in innovative early stage private companies which are working to create a more sustainable future. At the end of 2021, Catalyst had deployed £651 million of capital, with a further £633 million committed. Over time, building a strong track record will enable us to offer external clients access to this flexible, sustainably-focused strategy and its investments in sectors such as clean transport and carbon capture.

£651m
of capital deployed by the Catalyst team

With-Profits Fund performance

In February 2021, as part of our annual bonus declaration, our With-Profits Fund announced a positive return of 1.7% for 2020, a year of highly unusual movements in investment markets, compared to a negative return of 11.5% for the FTSE100 index. This underlines the benefit to policyholders of the fund's smoothing approach and its globally-diversified multi-asset portfolio, which aim to reduce the impact of volatile markets and deliver more dependable returns over time.

M&G South Africa acquisition

We agreed to acquire a further 0.13% of the share capital of PPMSA to secure a controlling stake in the company. With assets under management at acquisition of £12 billion, and operations in South Africa and Namibia, this represents a fifth investment hub for M&G alongside the UK, Europe, Asia and North America. Following completion of the acquisition in July, the business has been rebranded M&G South Africa. We expect that the emerging markets expertise offered by the business will drive benefits across M&G plc through increased collaboration.

Q2

April to June

Sustainability plan

In our first Sustainability Report as an independent company, we communicated our 10 point plan to address long-term challenges facing our business and wider society. This plan outlines the steps that we've committed to undertake by putting sustainability at the heart of everything we do: as an investor, employer and business partner and as a company run in the long-term interests of our shareholders. As an asset manager and an asset owner we can both help our customers to invest sustainably, and channel capital to sustainable investment.

Launch of sustainable funds

In line with our 10 point sustainability plan, we continue to evolve our investment strategies to deliver more sustainable outcomes. In June, we announced the addition of a sustainable objective for the M&G Global Select and M&G Pan European Select strategies, in line with the Paris Agreement goals on climate change, and the SICAV classification requirements of SFDR Article 9 (the highest available sustainability classification for European funds). We also launched the equity impact fund, Better Health Solutions Fund, which will invest in both better healthcare and better well-being, such as improved lifestyle, hygiene and safety. This focus on developing in-demand strategies, and improving investment performance, contributed to a return to positive net client inflows for retail funds in Europe and Asia in the second half of the year.

"As a global investor, we are playing a part in finding solutions to some of the most challenging issues facing the world and humankind."

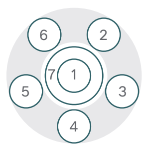
John Foley
Chief Executive

Scaling international

We completed the repatriation of North American and Asian assets from our former parent Prudential plc, onboarding investment mandates from the life fund with a total value of £25 billion.

Digital advice

We appointed Ignition Advice to work with us to develop a new low-cost hybrid digital offering for UK customers. The proposition aims to reduce the time and cost to deliver advice, leading to improved outcomes for those seeking to invest or retire with smaller sums of money, who often find it difficult to access traditional sources of financial advice. This is in line with M&G Wealth's focus on delivering a first-class, digital-led and inclusive experience for our customers, while still retaining the benefits of human relationships.



Our strategic priorities

1. One M&G
2. Revitalise UK
3. Expand Institutional
4. Grow Europe
5. Build International
6. Protect Heritage
7. Active Capital Management and Operational Efficiency

Q3

July to September

PruFund

We launched PruFund Planet, a people and planet focused version of PruFund, the smoothed investment solution for UK retail investors. The range of five funds offers positive environmental and societal investment outcomes, and has been developed through an initial allocation of £500 million from the With-Profits Fund, further demonstrating how seed capital can be deployed to accelerate development of new innovative investment strategies for the benefit of our customers.

£500m

Initial allocation from the With-Profits Fund to develop PruFund Planet

Equity asset management

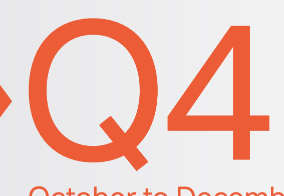
We appointed Fabiana Fedeli as Chief Investment Officer, Equities, continuing our commitment to revitalise our active investment capabilities. Her investment experience includes the integration of sustainability and impact into investment processes while Global Head of Fundamental Equities at Robeco Asset Management. This experience will be invaluable in supporting our focus on developing more consistent investment performance and launching new strategies to meet evolving customer needs, such as the demand for thematics and sustainability funds.

Financial advice

In August, we announced the planned acquisition of Sandringham, a provider of independent financial advice with around 180 advisers and £2.5 billion of assets under advice for over 10,000 customers. This brings scale and expertise to the business, in line with our ambition to grow adviser numbers and build advisory capability across the UK. In September, we welcomed our first intake to our M&G Wealth Adviser Academy, which was announced in February, providing candidates with a structured training and development programme, and M&G with a new source of growth in adviser numbers.

£2.5bn

of assets under advice brought by Sandringham



Q4

October to December

Institutional asset management

Our institutional asset management business recorded net client inflows of £2.2 billion in the fourth quarter, extending the recent positive momentum in performance and sales that has driven net inflows of £5.8 billion in the year overall. The business continued to benefit from its proven trusted partnership approach, but has also seen good progress in its strategy to enter new segments with new client wins in the German Spezialfonds market, and with insurance clients as we have developed expertise in this area. Within private assets, we have deployed capital of more than £11.5 billion in 2021 on behalf of our institutional clients, demonstrating our strong market position.

Smoothed proposition in Europe

We have completed the final regulatory step to allow us to offer a smoothed retail investment product into our European markets, modelled on our popular PruFund proposition in the UK. We anticipate strong demand from cautious customers looking for alternatives to low-yielding cash and equivalents.

Asia

Asia experienced another year of progress, with institutional mandates contributing net client inflows of £0.6 billion. This included £1.4 billion of new equity mandates, a successful fundraising for the Asia Property Fund, and the securing of our first discretionary investment management client in Japan.

£1.4bn

of new equity mandates

Pivot to sustainable investing

In October, we launched two new sustainable credit funds, which share the investment philosophy of the €3.3 billion European Credit Investment Fund and the €2.5 billion Total Return Credit Investment Fund, with sustainability factors at the core of their investment process. The new funds will be classified as Article 8 under SFDR, and their launch adds to our growing range of innovative sustainable funds, in line with the execution of our 10 point sustainability plan.

Our focus for 2022

Our operating segments

AM Asset Management | **R&S** Retail and Savings

Our strategic priorities	Focus for 2022
One M&G Operating segments: AM R&S	– Implement steps to deliver our 10 point sustainability plan – Continue the material transition of existing European funds to EU Article 8/9 standards on sustainable investing – Complete and embed our acquisition of responsAbility – Build our reputation as a champion of diversity and inclusion, and use our influence to encourage other companies to deliver improvements – Continue to strengthen our culture and respond to colleague feedback
Revitalise UK Operating segments: AM R&S	– Re-establish activity levels with advisers following COVID-19, improve service levels and extend PruFund Planet to ISAs and bonds – Roll-out of M&G Wealth hybrid digital advice service, and develop model portfolios following acquisition of TCF – Complete and embed our acquisition of Sandringham – Work to launch direct consumer investment service in partnership with Moneyfarm
Expand Institutional Operating segment: AM	– Focus on investment innovation and development of non-core strategies to capture new opportunities for growth – Build origination capabilities in key target markets outside UK to support growth – Develop institutional distribution expertise to sell wider range of existing capabilities
Grow Europe Operating segments: AM R&S	– Continue to focus on increasing distribution capacity in Europe, serving large distribution partners – Continue to expand our sustainability offering and thematic equities – Launch and roll-out smoothed solutions proposition
Build International Operating segment: AM	– Continue to build reach in Asia through institutional relationships, increased distribution capacity and new licences to open up new market opportunities – Leverage third party distribution relationships in the US; continue to integrate Africa business and enhance collaboration
Protect Heritage Operating segment: R&S	– Maintain focus on improving the quality of customer service, to address the decline in customer net promoter score and higher level of customer complaints during 2021 – Continue to migrate customers to our enhanced policy platforms

Principal Risk Exposure

We have identified 12 Principal Risks, which are explained in more detail in our Risk Management section on pages 72 to 78.

Our strategic priorities are exposed to some or all of these risks as follows:

- **One M&G:** Sustainability and ESG, Operational, Change, People, Regulatory compliance and Reputational risk.
- **Revitalise UK, Expand Institutional, Grow Europe and Build International:** Business environment and market forces, Sustainability and ESG, Investment performance and risk, Credit, Market, Corporate liquidity, Operational, Change, People, Regulatory compliance and Reputational risk.
- **Protect Heritage:** Business environment and market forces, Sustainability and ESG, Investment performance and risk, Credit, Market, Corporate liquidity, Longevity, Operational, Change, People, Regulatory compliance and Reputational risk.

Shaping a sustainable future...

by helping to tackle social and environmental challenges.

One M&G

EnergyNest

In April 2021, Infracapital committed to invest €110 million in EnergyNest, the Norway-based global market leader in thermal batteries.

Decarbonising industrial processes which generate excess heat remains one of the major challenges in the global fight against climate change – and the electrification of industrial heat is emerging as a significant decarbonisation opportunity.

Through its innovative ThermalBattery™ energy storage solutions, EnergyNest enables the transfer of industrial waste heat into electricity and the use of renewable power in industrial heat processes.

EnergyNest's ThermalBattery™ (seen above) is made from abundant, recyclable and non-hazardous materials. It has a low carbon footprint, a lifespan of 30-50 years and very low energy losses.

"We're delighted to play a role in providing a solution to store and decarbonise energy while seeking to create long-term value for investors," says Andy Matthews, Head of Greenfield at Infracapital.

This investment will accelerate EnergyNest's international growth plans to deliver CO_2 and energy cost savings to even more industrial customers, and will also help us make progress towards our target of net zero carbon emissions across our investments by 2050.

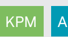
Infracapital committed to invest €110 million in EnergyNest, the Norway-based global market leader in thermal batteries

Performance highlights

These key performance measures are the most relevant financial indicators used to manage performance

Adjusted operating profit before tax

£721m
(2020: £788m)



Definition
The purpose of adjusted operating profit before tax is to demonstrate M&G plc's longer-term performance to equity holders, as it is less affected by short-term market volatility and non-recurring items than IFRS profit before tax.

Performance in 2021
Our adjusted operating profit before tax of £721 million (2020: £788 million) decreased 9% driven mainly by lower benefit from changes to longevity assumptions in 2021.

For further information on adjusting items see Note 3 Segmental Analysis to the consolidated financial statements.

Total capital generation

£1,822m
(2020: £995m)

KPM

Definition
The level of surplus capital is an important financial consideration for us. Capital generation measures the change in surplus capital during the period, before dividends and capital movements. We 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.

Performance in 2021
Total capital generation was £1,822 million (2020: £995 million) reflecting positive market movements over the year as a result of improved equity market conditions and increased yields.

IFRS profit after tax

£92m
(2020: £1,142m)

KPM

Definition
Profit after tax demonstrates to our shareholders the financial performance of M&G plc during the year on an IFRS basis.

Performance in 2021
IFRS profit after tax attributable to equity holders decreased to £92 million (2020: £1,142 million) as market conditions have led to unrealised losses on derivative contracts held to protect the Solvency II balance sheet, reversing the unrealised gains seen on these derivatives in 2020, partly offset by the corresponding reduction in tax.

Operating capital generation

£1,117m
(2020: £1,312m)

Definition
Operating capital generation represents the longer-term components of the movements in M&G plc's surplus capital, as it is less affected by short-term market volatility and non-recurring items than total capital generation.

Performance in 2021
Operating capital generation fell during 2021 by 15%, driven mainly by lower expected returns on surplus annuity assets, higher new business strain due to a change in hedging strategy, and a lower benefit from assumption changes.

Net client flows (excluding Heritage)

£0.6bn inflow
(2020: £6.6bn outflow)

Definition
Net client flows indicate how our business grows and how successful it is at retaining and attracting new customers and clients.

Performance in 2021
Net client flows saw a significant improvement in 2021, with a £0.6 billion inflow compared to a £6.6 billion outflow in 2020 which saw the peak in outflows experienced at the height of the COVID-19 pandemic.

Shareholder Solvency II coverage ratio

218%
(2020: 182%)

Definition
The purpose of the shareholder view of the Solvency II coverage ratio is to provide what we believe is a more relevant reflection of our capital strength than is provided by the regulatory Solvency II coverage ratio.

Performance in 2021
The resilience of our capital position has been demonstrated over the period, with our shareholder Solvency II coverage ratio increasing by 36% to 218% at 31 December 2021, after paying dividends of £466 million.

Assets under management and administration

£370.0bn
(2020: £367.2bn)

Definition
AUMA is a key indicator of the scale of the business and demonstrates our potential earnings from investment return and fee income.

Performance in 2021
AUMA increased £2.8 billion on 2020 with positive market and other movements offsetting the £9.6 billion transfer to Rothesay Life PLC.

Dividend per share (ordinary)

18.3p
(2020: 18.2p)

Definition
Dividend per share is the return of value to shareholders for each share held.

Performance in 2021
Having paid an Interim dividend in September 2021 of 6.1 pence per share, the Board has agreed to pay a second interim dividend of 12.2 pence per share on 28 April 2022.

Key

KPM Key Performance Measure Alternative Performance Measure

Our financial performance

Strong capital generation and diversified sources of earnings provide a solid base for our strategic priorities

Our results for 2021 demonstrate our consistent strength in proactively and efficiently managing our balance sheet, with total capital generation of £1,822 million (2020: £995 million). This strong performance has resulted in the achievement of our total capital generation target of £2.2 billion by the end of 2022, a year earlier than planned. The increase in total capital generation has led to an increase in our shareholder Solvency II coverage ratio to 218% (2020: 182%) after paying dividends of £466 million, with other capital movements providing a net benefit of £32 million in the year.

We have also announced a new target to deliver £2.5 billion of cumulative operating capital generation by 2024.

Adjusted operating profit before tax of £721 million (2020: £788 million) demonstrates the benefits from our diversified sources of earnings, resulting from being an asset manager and an asset owner against the backdrop of an increasingly competitive environment.

Total AUMA increased to £370.0 billion (2020: £367.2 billion) with positive market and other movements offsetting the £9.6 billion transfer to Rothesay Life PLC. We returned to net client inflows (excluding Heritage) of £0.6 billion compared to net client outflows (excluding Heritage) of £6.6 billion in 2020. The main driver of the improvement being £2.0 billion of net client inflows in our Asset Management business in the year, a significant increase on 2020 which saw a £6.8 billion net client outflow.

We have surpassed our £145 million target by achieving £167 million of annual run-rate shareholder cost savings at the end of the year, delivering one year early against our commitment to deliver by the end of 2022 through our five-year merger and transformation programme. Since 2017 when we made the commitment we have continued to carefully balance additional savings potential with the associated investment to achieve, recognising the changes in the dynamics of the business.

As a consequence, we have invested further in the business beyond the original scope of the merger and transformation programme, resulting in the over-achievement of the target one year earlier than anticipated. The shareholder investment over four years has been £385 million against an expected initial investment of approximately £250 million, driven by the incremental cost saving initiatives identified, and reflecting both additional projects and some unanticipated costs of delivering the original merger and transformation programme. We will remain focused on driving operational efficiencies across the business as we continue to deliver against our strategic priorities.

As described in the Our business model section, following a change in management structure our operating segments have been revised in the year to "Asset Management" and "Retail and Savings".

Paul Cooper
Interim Chief Financial Officer

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 2021	2020
Core Asset Management	**277**	283
Performance fees (including carried interest) and investment income	**38**	47
Asset Management	**315**	330
Wealth	**41**	(11)
Heritage	**620**	699
Other	**(1)**	13
Retail and Savings	**660**	701
Corporate Centre	**(254)**	(243)
Adjusted operating profit before tax	**721**	788

Adjusted operating profit before tax was £721 million for the year ended 31 December 2021 (2020: £788 million).

In Asset Management, revenue and operating expenses have remained relatively stable, and the reduction in adjusted operating profit to £315 million (2020: £330 million) is mainly driven by lower performance fees and carried interest.

In Retail and Savings, the total with-profits shareholder transfer net of hedging and other gains/losses has increased by £47 million to £268 million, primarily as a result of improved market conditions leading to positive unit price adjustments being made to PruFund and higher outflows from Retirement Account.

However, this has been offset by a lower benefit from longevity assumption changes on annuities leading to a reduction in Retail and Savings adjusted operating profit to £660 million (2020: £701 million). Head office costs of £95 million (2020: £101 million) have remained broadly stable and the movement in Corporate Centre is largely driven by adverse foreign exchange movements on the USD subordinated debt.

Adjusted operating profit before tax to IFRS profit after tax

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

£m	For the year ended 31 December 2021	2020
Total fee-based revenues	**1,254**	1,220
Annuity margin	**369**	438
With-profit shareholder transfer net of hedging and other gains/losses	**268**	221
Adjusted operating income	**1,891**	1,879
Adjusted operating expenses	**(1,063)**	(1,020)
Other shareholder loss	**(101)**	(77)
Share of profit from joint ventures and associates	**6**	10
Adjusted operating profit attributable to non-controlling interests	**(12)**	(4)
Adjusted operating profit before tax	**721**	788
Short-term fluctuations in investment returns	**(537)**	678
Profit/(loss) on corporate transactions	**35**	–
Restructuring and other costs	**(146)**	(73)
Amortisation of intangibles acquired in business combinations	**(4)**	–
IFRS profit attributable to non-controlling interests	**12**	4
IFRS profit before tax attributable to equity holders	**81**	1,397
Tax credit/(charge) attributable to equity holders	**11**	(255)
IFRS profit after tax attributable to equity holders	**92**	1,142

IFRS profit after tax

IFRS profit after tax attributable to equity holders decreased to £92 million compared to £1,142 million in 2020. This £1,050 million variance is reflective of a £537 million loss in the year (2020: £678 million gain) from short-term fluctuations and an increase of £73 million in restructuring and other costs, offset by profit on corporate transactions in the year and a reduction in tax attributable to equity holders.

Market conditions have led to losses from short-term fluctuations in investment returns in 2021 as financial markets recover and the sizeable gains seen in 2020 from the derivatives held to protect the Solvency II capital position are reversed. These losses primarily comprise a £99 million loss (2020: £286 million gain) from the annuity portfolio, including fair value movements on the surplus assets and a £103 million loss (2020: £118 million gain) on interest rate swaps purchased to protect PAC's Solvency II capital position against falls in interest rates, both due to rising yields in the period.

In addition, there was a £248 million loss (2020: £235 million gain) as stock markets recovered in the period on the equity hedges used to protect the value of future shareholder transfers from the With-Profits Fund on PAC's Solvency II balance sheet. While these hedges protect the Solvency II balance sheet, there is no corresponding item to protect on the IFRS balance sheet, and therefore when the fair value of the derivatives fall as interest rates increase and equity markets improve, there are no offsetting fair value gains on an IFRS basis.

Profit on corporate transactions relates to the gain on acquisition of a controlling interest in PPMSA, previously an associate, of £51 million in July 2021 and a £16 million loss in respect of the Part VII transfer of annuities to Rothesay Life PLC.

Restructuring and other costs includes costs that relate to the transformation of our business. In the year to 31 December 2021, these costs include £48 million in respect of changes required to adapt to future ways of working, of which £29 million is an impairment of the lease for one of our offices. Restructuring and other costs also include £45 million in relation to the integration of Ascentric as we build out the new capabilities across our business and £35 million relating to the merger and transformation programme.

The equity holders' effective tax rate for the year ended 31 December 2021 was negative 13.6% (resulting in a tax credit) compared to a positive rate of 18.3% for the year to 31 December 2020. The equity holders' effective tax rate of negative 13.6% is lower than the UK statutory rate of 19% (2020: 18.3%). The basis for a tax credit (negative effective tax rate) when the Group is profitable is due to beneficial tax adjustments for both recurring and non-recurring items. Excluding non-recurring items, the equity holders effective tax rate is 9.9% (2020: 18.8%) which is primarily due to the utilisation of tax capital losses on which no deferred tax was previously recognised and non-taxable income, partially offset by adverse effects from non-deductible expenses. The impact of the beneficial tax adjustments on the effective tax rate is more significant than the prior period due to the lower profit base.

Further information on tax is provided in Note 9 of the consolidated financial statements.

Capital generation

The following table shows an analysis of total capital generation:

£m	For the year ended 31 December 2021	2020
Asset Management underlying capital generation	**313**	311
Retail and Savings underlying capital generation	**459**	552
Corporate Centre underlying capital generation	**(288)**	(286)
Underlying capital generation	**484**	577
Other operating capital generation	**633**	735
Operating capital generation	**1,117**	1,312
Market movements	**917**	(118)
Restructuring and other	**(181)**	(73)
Tax	**(31)**	(126)
Total capital generation	**1,822**	995

Total capital generation was £1,822 million for the year ended 31 December 2021 (2020: £995 million). Market movements in 2021 have resulted in a positive impact of £917 million (2020: negative £118 million) as a result of improved equity market conditions and increased yields; offset by a loss on the surplus assets in the annuity portfolio.

Underlying capital generation fell to £484 million (2020: £577 million). This was primarily driven by Retail and Savings which was impacted by lower expected returns on surplus assets in the annuity portfolio given the falls in yields over 2020, and higher new business strain due to a change in our hedging strategy during the year.

Other operating capital generation has benefited from management actions of £468 million (2020: £408 million) and a release of capital driven by a reduction in the SCR following the Major Model Change approved by the PRA in December and other smaller model changes. However, these have been partly offset by lower benefit from assumption changes over 2021, a reduced contribution from the Corporate Centre due to the impact of updates to the measurement approach of the Group's leases in 2020, and provision releases in 2020 which have not repeated in 2021, leading to other operating capital generation of £633 million (2020: £735 million).

Restructuring and other costs of £181 million reflects the impact on the capital position of transformation costs, including the integration of Ascentric and changes to our future ways of working and associated changes to our office space.

Capital position

M&G plc's Solvency II surplus increased to £6.2 billion as at 31 December 2021 (2020: £4.8 billion), equivalent to a shareholder Solvency II coverage ratio of 218% (2020: 182%), driven by total capital generation of £1,822 million (2020: £995 million) combined with a deduction of £466 million (2020: £562 million) from dividends paid to shareholders in the year, and an increase of £32 million (2020: £121 million) from other capital movements.

Our With-Profits Fund continues to have a strong Solvency II coverage ratio of 302%. This is higher than the 242% reported at 31 December 2020, driven by a £357 million increase in surplus from management actions over the year.

The regulatory Solvency II coverage ratio of M&G plc as at 31 December 2021 was 168% (2020: 144%). 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 which have been re-calculated using management's estimate of the impact of operating and market conditions at the valuation date.

Financing and liquidity

The following tables shows key financing and liquidity information:

£m	As at 31 December 2021	2020
Nominal value of subordinated debt	**3,216**	3,216
Shareholder Solvency II own funds	**11,409**	10,643
Leverage ratio	**28%**	30%

The key 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. For further detail on shareholder Solvency II own funds see Note 37.2.2. Our leverage ratio of 28% at 31 December 2021 has fallen from 30% at 31 December 2020 as shareholder Solvency II own funds increased.

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

£m	2021	2020
Opening cash and liquid assets at 1 January	**1,040**	1,274
Cash remittances from subsidiaries	**1,458**	737
Corporate costs	**(112)**	(45)
Interest paid on core structural borrowings	**(186)**	(189)
Cash dividends paid to equity holders	**(466)**	(562)
Acquisition of subsidiaries	**–**	(86)
Shares purchased by employee benefit trust	**–**	(105)
Capital injections into subsidiaries	**(25)**	–
Other shareholder income	**–**	16
Closing cash and liquid assets at 31 December[i]	**1,709**	1,040

i Closing cash and liquid assets at 31 December 2021 included a £1,651 million (2020: £1,001 million) inter-company loan asset with Prudential Capital plc, which acts as M&G plc's treasury function.

Movements in cash and liquid assets held by the Parent Company for the year ended 31 December 2021 represent the remittances and payments that arise in the normal course of business. Total cash and liquid assets have increased with cash remittances of £1,458 million (2020: £737 million) received from our subsidiaries, more than covering the cash dividend payments to equity holders of £466 million (2020: £562 million) and interest paid on structural borrowings of £186 million (2020: £189 million).

The remittance received from PAC in the year to 31 December 2021 was higher than the prior year, driven by PAC's higher solvency ratio at 31 December 2020 than the year before, and in line with our Active Capital Management policy.

The current levels of capital and liquidity reflect the continued market uncertainty. We continue to monitor the short-term volatility in the strength of the balance sheet to make sure we deploy this capital in the best interests of our shareholders. In line with this, we have announced our intention to return £500 million to shareholders by way of a share buy-back programme, which is expected to start shortly and to complete within 12 months.

Dividends

We paid dividends of 12.2 pence per share, equal to £310 million, on 28 April 2021. In addition, we paid an interim ordinary dividend of 6.1 pence per share, equal to £156 million, in line with our policy of paying one-third of the previous year total dividend, on 29 September 2021. A second interim dividend of 12.2 pence per share, equal to roughly £311 million, will be paid on 28 April 2022.

One M&G

Accelerating growth

M&G Wealth was formed in 2020 as a new force in the fast-growing market for UK wealth management services.

We continued to invest in this business, with the completion of our acquisition of Sandringham Financial Partners in January 2022, to accelerate the growth of our advisory capability across the UK.

Sandringham brings more than £2.5 billion of assets under advice to M&G Wealth's existing advice, platform and investment businesses, and relationships with around 180 IFA Partners acting on behalf of more than 10,000 individual clients.

Active Capital Management and Operational Efficiency

Our seventh strategic priority is Active Capital Management and Operational Efficiency.

Our strategic priorities

1. One M&G
2. Revitalise UK
3. Expand Institutional
4. Grow Europe
5. Build International
6. Protect Heritage
7. Active Capital Management and Operational Efficiency

Active Capital Management

The primary focus of our capital management framework is to maintain financial strength and reward shareholders with attractive returns. This is achieved through actively managing M&G plc's solvency position and the quality of capital held.

When deploying additional capital, we prioritise investments in the business that can generate long-term sustainable earnings growth. Any investment will always be measured against the financial attractiveness of capital returns, as well as our Risk Appetite Framework which sets out key trigger points for the management of solvency, liquidity, and dividend volatility.

During the year we have delivered total capital generation of £1,822 million increasing our shareholder Solvency II coverage ratio to 218%.

Our total capital generation result includes a £468 million benefit from management actions, driven by a contribution of £287 million from asset trading and optimisation, as well as £91 million from changes to our equity and interest rate hedges.

We have met our three-year total cumulative capital generation target of £2.2 billion to the end of 2022. We have also announced a new target to deliver £2.5 billion of cumulative operating capital generation by 2024.

We continue to deploy our capital to expand the business with an aggregate investment of approximately £260 million expected in 2022 in respect of investments in Sandringham, TCF Investment, Moneyfarm and responsAbility.

In addition, we have announced our intention to return £500 million to shareholders by way of a share buy-back programme, which is expected to start shortly and to complete within 12 months.

Operational Efficiency

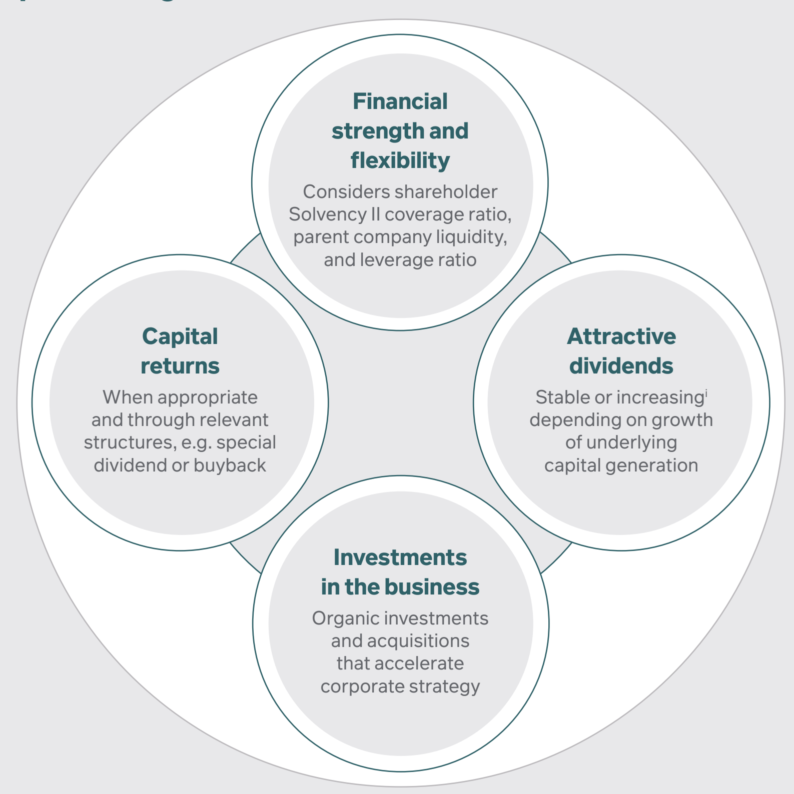
We remain focused on driving operational efficiencies across the business as we continue to deliver against our strategic priorities.

As part of that, we have surpassed our £145 million target by achieving £167 million of annual run-rate shareholder cost savings at the end of the year, delivering one year early against our commitment to deliver by the end of 2022 through our five-year merger and transformation programme.

We continue to transform the business, and have entered contracts with State Street and Accenture in 2021 to outsource Investment Middle Office and IT Application Services respectively. These deals combined deliver significant annual savings whilst providing scalable and flexible services and new innovation to enable future growth.

We are also focused on ensuring we deliver the best possible outcomes and service for our customers. This year we have helped over 180,000 additional Heritage customers register for an online account so they can benefit from the self service and digital channel capability available.

Capital Management Framework



i Starting from 2021 total dividend per share of 18.3p (interim + second interim).

Asset Management

Our Institutional Asset Management business continues to perform strongly as we reposition our Retail Asset Management business for sustainable growth

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	
	2021	2020	**2021**	2020
Retail Asset Management	**(3.8)**	(11.9)	**52.7**	58.1
Institutional Asset Management	**5.8**	5.1	**103.1**	85.5
Other	**–**	–	**0.9**	0.8
Total Asset Management	**2.0**	(6.8)	**156.7**	144.4

i £7.9 billion of total asset management AUMA relates to assets under advice (2020: £6.5 billion).

Our Asset Management business saw a significant improvement in net client flows with net client inflows of £2.0 billion compared to net client outflows of £6.8 billion in 2020.

Retail Asset Management flows improved in 2021 with a reduction in net client outflows to £3.8 billion (2020: £11.9 billion), of which only £0.8 billion were attributable to the second half of 2021. There were two one-off outflows in 2021 with the re-opening of the M&G Property Portfolio Fund in May resulting in initial net client outflows of £0.9 billion, and a further £0.9 billion of one-off outflows from our European Strategic Value fund due to withdrawals by Prudential plc. The improvement in Retail flows in the year was largely driven by a reduction in net client outflows in the international channel, which together with UK wholesale accounted for the majority of outflows in both periods.

This was supported by positive flows into the impact and sustainability focused fund ranges – with net client inflows of £0.2 billion and £1.1 billion respectively. Investment performance also improved year-on-year. In addition, our partnerships with European distributors continued to deliver strong inflows within our Investment Solutions business, with net inflows of £1.1 billion in the year.

Retail Asset Management AUMA decreased £5.4 billion to £52.7 billion due to net client outflows in the year, and in part due to the partial reallocation of PPMSA to Institutional Asset Management based on a reassessment following the acquisition of a controlling stake.

Institutional Asset Management AUMA increased to £103.1 billion driven by net client inflows of £5.8 billion, as well as market and other movements including the acquisition of a controlling interest in PPMSA.

Our Institutional business has continued to perform strongly, with some large wins in the year in our Public Debt business, with £4.4 billion of net client inflows in 2021 and solid investment performance in 2021.

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 15% to £71.8 billion of AUMA as at 31 December 2021 (2020: £62.3 billion).

Adjusted operating profit before tax

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

£m	For the year ended 31 December 2021	2020
Fee-based revenues[i]	**976**	989
Adjusted operating income	**976**	989
Adjusted operating expenses	**(672)**	(669)
Other shareholder profit	**17**	4
Share of profit from joint ventures and associates	**6**	10
Adjusted operating profit attributable to non-controlling interests	**(12)**	(4)
Adjusted operating profit before tax	**315**	330

i £303 million of the fee-based revenues is in respect of assets managed on behalf of Retail and Savings (2020: £228 million).

Adjusted operating profit before tax from our Asset Management activities has decreased 5% to £315 million in the year ended 31 December 2021 (2020: £330 million) primarily driven by lower carried interest received on Infracapital funds in 2021, offset by favourable market returns on seed capital investments and units held to hedge management incentive schemes.

Revenue earned by Institutional Asset Management has increased to £539 million (2020: £481 million) as AUMA continues to grow. However, we have continued to experience the impact of downward pressure on retail margins and net client outflows on the revenue earned by Retail Asset Management which has fallen to £414 million (2020: £466 million).

The lower pricing structure applied to our UK OEICs in February 2021 contributed to a £41 million reduction along with a £13 million fall following the lower administration fees on our SICAVs applied in November 2020.

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

The Asset Management average fee margin of 32 basis points (bps) was four bps lower at 31 December 2021 compared to 31 December 2020. This reduction largely reflects the new sustainable pricing structure implemented in Retail Asset Management, resulting in a decrease of 11 bps to 39 bps at 31 December 2021. Average revenue margins in the Institutional Asset Management business remained broadly stable at 27 bps (2020: 28 bps).

The cost/income ratio for Asset Management business decreased slightly to 70% (31 December 2020: 71%) with fee-based revenues and operating expenses broadly stable in the year.

In July 2021, we acquired a controlling interest in PPMSA – the share of profit on joint ventures and associates represents the profit on PPMSA up to the date of acquisition. Post-acquisition, PPMSA is presented within fee-based revenues and operating expenses, with non-controlling interests removed to arrive at adjusted operating profit before tax.

Capital generation

The following table shows an analysis of operating capital generation:

£m	For the year ended 31 December 2021	2020
Underlying capital generation	**313**	311
Other operating capital generation	**15**	(2)
Operating capital generation	**328**	309

Operating capital generated by Asset Management increased marginally to £328 million (2020: £309 million) as a result of increases in other operating capital generation.

This increase reflects a reduction in capital requirements as a result of a decrease in fixed cost base over 2020.

Retail and Savings

We are continuing to make good progress on building our Wealth business

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	
	2021	2020	**2021**	2020
Wealth	**(1.4)**	0.1	**84.2**	79.5
Heritage	**(6.9)**	(6.6)	**117.8**	133.7
Other	**–**	0.1	**9.1**	8.4
Total Retail and Savings	**(8.3)**	(6.4)	**211.1**	221.6

i £169 billion of AUMA is managed internally by the Group's Asset Management business (2020: £140 billion).

Wealth AUMA increased to £84.2 billion with positive market and other movements offsetting net client outflows of £1.4 billion. Wealth net client outflows were driven by an increase in drawdowns as the retirement products mature, as well as impacts from increased transfers out due to changes in market dynamics, such as consolidation in the market and a shift to digital post COVID-19.

The trends underscore the importance of broadening the proposition offered in our Wealth business.

The acquisition of Sandringham will provide our customers with access to whole of market advice, and our partnership with Moneyfarm will provide direct investment services to our UK customers. To complete our offering, we have also announced our intention to acquire TCF Investment, a provider of model portfolio services.

Heritage AUMA decreased to £117.8 billion driven by the £9.6 billion transfer to Rothesay Life PLC following successful appeal in November 2021 and net client outflows of £6.9 billion in the year (2020: £6.6 billion), in line with expectations, as the Heritage business continues to run off.

Other Retail and Savings AUMA increased to £9.1 billion (2020: £8.4 billion) benefiting from positive market movements.

PruFund is an investment solution offered to customers of both Wealth and Other Retail and Savings. PruFund AUMA increased by 5% to £58.4 billion as a result of positive investment returns, offset partially by net client outflows of £1.3 billion.

Adjusted operating profit before tax

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

£m	For the year ended 31 December	
	2021	2020
Fee-based revenues	**278**	231
Annuity margin	**369**	438
With-profits shareholder transfer net of hedging and other gains/losses	**268**	221
Adjusted operating income	**915**	890
Adjusted operating expenses	**(296)**	(250)
Other shareholder profit	**41**	61
Adjusted operating profit before tax	**660**	701

Adjusted operating profit before tax from our Retail and Savings business reduced to £660 million (2020: £701 million) primarily driven by a reduction in the annuity margin.

Fee-based revenues relate primarily to revenues from Ascentric, M&G Wealth Advice (formerly Prudential Financial Planning) and the unit-linked business. The increase of £47 million to £278 million includes an additional £24 million due to the recognition of a full year of revenue from Ascentric compared to four months in 2020.

Annuity margin is down £69 million predominantly due to a lower benefit from longevity assumption changes in 2021 than those reflected in 2020.

The with-profits shareholder transfer increased to £366 million (2020: £308 million), primarily as a result of improved market conditions leading to upward unit price adjustments being made within PruFund and increased claims on our Retirement Account product.

This increase was offset by larger fair value losses of £60 million (2020: £57 million loss) on the derivative instruments used to mitigate the equity risk in respect of shareholder transfers in the year, and an expense overrun of £38 million in 2021 (2020: £31 million) on new business written in the With-Profits Fund due to recent lower sales volumes.

Adjusted operating expenses have increased £46 million to £296 million of which £30 million reflects a full year of costs for Ascentric.

Other shareholder profit is down on 2020 which benefited primarily from insurance reserve releases in relation to a number of legacy remediation programmes and other one-off items that were not repeated in 2021.

Adjusted operating profit before tax sources of earnings

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

£m	For the year ended 31 December 2021	2020
Wealth	**41**	(11)
Heritage	**620**	699
– of which Annuities	**369**	438
– of which traditional with-profits	**205**	202
Other Retail and Savings	**(1)**	13
Adjusted operating profit before tax	**660**	701

Adjusted operating profit before tax from our Wealth business increased to profit of £41 million (2020: £11 million loss) driven by an improvement in the net result from business written in PruFund to £63 million (2020: £22 million). The with-profits shareholder transfer in respect of PruFund was £115 million (2020: £54 million), which was partially offset by fair value losses on hedges and the expense overrun on new business.

Wealth also benefitted from a reduction in the losses on its unit-linked and other businesses. However, the loss from its platform and advice business increased slightly to £4 million (2020: £2 million loss) which includes the full year results from Ascentric.

Heritage adjusted operating profit decreased 11% to £620 million (2020: £699 million) largely driven by the reduction in the annuity margin.

Traditional with-profits business net result was stable in the year at £205 million (2020: £202 million).

Other Retail and Savings is down £14 million, primarily driven by a £16 million cost in 2021 in relation to an estimated future shareholder payment to reimburse the With-Profits Fund for its contribution to the cost to set-up and grow the business written in Poland.

The following table provides further analysis of the annuity margin:

£m	For the year ended 31 December 2021	2020
Return on excess assets and margin release	**172**	188
Asset trading and portfolio management actions	**10**	59
Longevity assumption changes	**125**	217
Other	**62**	(26)
Annuity margin	**369**	438

Recurring sources of earnings from the annuity book, 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, decreased by 9% to £172 million (2020: £188 million).

This was mainly due to a switch from debt securities held in surplus assets of the annuity portfolio to cash to pay remittances to the holding company. During 2021, we earned £10 million from asset trading and portfolio management actions, a reduction from 2020 impacted by losses on property disposals in the year due to the impact on the valuation of annuity liabilities.

Longevity assumption changes are down £92 million on 2020 due to the significant favourable benefits in 2020 not being repeated in 2021.

Other includes a £31 million benefit from the release of the annuity sales practices review provision in the year compared to £38 million of additional costs in 2020.

Capital generation

The following table shows an analysis of operating capital generation:

£m	For the year ended 31 December 2021	2020
Wealth	**49**	75
– of which with-profits	**60**	88
– In-force	**112**	99
– New business	**(52)**	(11)
Heritage	**378**	446
– of which with-profits	**142**	105
– of which Shareholder annuity and other	**236**	341
Other Retail and Savings	**32**	31
Underlying capital generation	**459**	552
Model improvements	**116**	(32)
Assumption changes	**18**	167
Management actions and other (incl experience variances)	**487**	514
Other operating capital generation	**621**	649
Operating capital generation	**1,080**	1,201

Underlying capital generation for the year ended 31 December 2021 fell to £459 million (2020: £552 million), with a reduction in contribution from both Wealth and Heritage businesses.

In Wealth, the contribution from in-force with-profits business increased to £112 million (2020: £99 million) due to the gap between expected return and risk-free rates widening as yields fell during 2020. This increase was offset by a reduction from new with-profits business driven by increased new business strain as a result of changes in our hedging strategy. Capital generation across the remainder of the Wealth business also fell marginally over the period reflecting a full year of Ascentric losses. The combined impact across the Wealth business was a reduction in capital generation to £49 million (2020: £75 million).

Within the Heritage business, traditional with-profits business generated underlying capital of £142 million during the year to 31 December 2021 (2020: £105 million) again increasing as a result of the widening of the gap between expected returns and risk-free rates, partly offset by a reduction in the value of equity hedges as equity markets improved.

There also continued to be significant, although reduced, capital generation from the shareholder annuity and other business, contributing £236 million (2020: £342 million). The reduction in underlying capital generation for the annuity business is driven by a reduction in the expected return on surplus assets in the annuity portfolio as a result of falls in yields over 2020.

Other operating capital generation decreased to £621 million (2020: £649 million), reflecting lower impacts from assumptions changes in 2021 than over the previous year.

This reduction is primarily in relation to longevity assumption changes as discussed in the adjusted operating profit section, which were not as high in 2021.

Management actions and other generated capital of £487 million, including a £287 million impact from asset trading in the annuity portfolio, a £91 million impact from the rebalance of the equity and interest rate hedges, and the release of counterparty credit risk of £153 million following the Part VII transfer to Rothesay Life PLC. This was partially offset by a reduction in capital generation of £21 million following the merger of the SAIF with-profits sub fund with the main with-profits sub fund in April. Additionally, there was a reduction in capital of £26 million as a result of credit downgrades. In 2020 there was significant benefit of £413 million from a series of management actions taken to strengthen the solvency position in response to adverse market conditions.

In accordance with Section 31 of the UK Corporate Governance Code, the Board has undertaken a comprehensive and robust assessment of the prospects and viability of the Group.

Process for assessing long-term prospects

The Group's long-term prospects are primarily assessed through the strategic and financial planning process. The main output of this process, on which this assessment is based, is the "Business Plan" which covers the period to December 2024. The Business Plan was approved by the Board in December 2021, following a robust review and challenge process.

The Business Plan contains detailed financial forecasts, including the related risks and mitigating actions over the planning period. The forecasts have been prepared based on the business model that management is deploying to deliver our key strategic priorities, as explained on page 18 of this report. The Business Plan covers all the key measures that underpin our Financial Management Framework, which includes metrics on capital, liquidity, debt and earnings.

The Business Plan considers the implications of current and emerging risks and the resulting uncertainties that these present to the achievement of the Business Plan, including the principal risks and uncertainties to which the Group is exposed as discussed on pages 72 to 78 of this report. We assess these risks and uncertainties through stress and scenario testing as discussed later in this statement.

Progress against the Business Plan will be monitored regularly by the Board.

The Board also considered and reviewed the results of the annual Own Risk and Solvency Assessment (ORSA), which is an integral part of our risk management process. The process helped the Board to assess the resilience of the Group's solvency position to various risk and stress scenarios. The Board confirms that it has carried out a robust assessment of the company's emerging and principal risks.

Period for assessing viability

The Board considers that the three-year period to December 2024 is appropriate for assessing viability. This aligns with the business planning horizon and so, reflects the period over which key strategic initiatives will be delivered, principal risks will be managed and results will be monitored.

Assessment of viability

The Board assessed the financial and operational impact of the Group's principal risks on the ability to deliver the Business Plan. The Board reviews the principal risks to ensure that they reflect current market conditions and any changes to the Group risk profile.

As part of the strategic and financial planning process, we considered the impact of various severe, but plausible stresses and scenarios on the ability to deliver the Business Plan.

The individual stresses are developed by the Risk and Resilience team, with the Investment Office and Finance providing input into the development of the relevant scenarios. The process is overseen by the Group Risk Committee.

The following individual stresses were considered as part of the Business Plan:

- 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).

In addition, the Business Plan was subjected to various combined risk scenarios to assess the resilience of our financial position.

The impact of scenarios related to COVID-19 was an area of key focus for last year's strategic and financial planning process and we continue to monitor the ongoing impacts of the pandemic on our business. As the situation has evolved, we updated our scenarios in the Business Plan as follows based on potential outcomes for the global economy.

- Optimistic – Positive developments allow for a faster pace of global vaccination and a wide reopening of economies globally.
- Baseline – Vaccines to be rolled out in line with current projections, varying by region, and for economic recovery to continue as economies reopen.
- Pessimistic – Vaccination roll-out is further disrupted, possibly by the emergence of new strains of the virus, delaying the timing of any activity normalisation.

As economies begin to reopen and a recovery takes hold, post the unprecedented policy stimulus from both governments and central banks, higher inflation in the medium term remains an area to consider.

As part of the Business Plan, we have also tested the resilience of our financial position in a high inflationary environment and the economic implications resulting from it.

In addition, as part of its ORSA, the Group undertook reverse stress testing to determine scenarios that would result in the shareholder solvency coverage ratio falling below 100%. This included a scenario where both market and longevity risks were stressed and another in which only market risks were stressed.

The derived scenarios indicated that the Group had the ability to withstand severe events while still meeting its capital requirements.

Climate risk has been an area of focus for the Board and although not covered specifically in the Business Plan, it has been assessed as part of our ORSA.

We continue to refine our climate-related scenario testing approach and to assess appropriate management actions that could mitigate the impacts of climate-related risks.

For the purpose of the ORSA, the following scenarios were assessed:

- Early action – The transition to a net zero economy starts in 2021 so carbon taxes and other policies intensify relatively gradually over the scenario horizon. Global carbon dioxide emissions are reduced to net zero by around 2050.
- Late action – The implementation of policy to drive the transition to a net zero economy is delayed until 2031 and is therefore more sudden and disorderly.
- No additional action – The scenario primarily explores physical risks from climate change. Here, there are no new climate policies introduced beyond those already implemented.

In assessing viability, the Board also considered the availability of the £1.5 billion syndicated revolving credit facility which matures in 2024. As at 31 December 2021, the facility remained undrawn. In addition, the Group can access an active £10 billion Medium Term Note (MTN) programme to meet any immediate liquidity requirements.

The results of the stress and scenario testing demonstrated that due to the robust risk management process in place and the broad range of mitigating actions available, such as access to immediate liquidity funding and the ability to reduce dividends, the Group is able to withstand the impact in each case with regards to meeting all liabilities as they fall due.

Statement of viability

Based on the results of the procedures outlined above, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period ending 31 December 2024.

Sustainability in everything that we do

This year, we've focused on embedding sustainability across our business. Launched in May 2021, our 10 point sustainability plan (see page 40) is a clear roadmap that will guide us in transforming our business and our investments to meet the needs of the future

Why sustainability matters for us

At humanity's current rate of consumption, we require 1.8 Earths to provide the resources we need and absorb our waste, which is clearly an unsustainable situation.

Urgent global action is required by us all to change the way we produce and consume to ensure a more viable long-term future for people today and for the generations to come.

As an asset manager, asset owner and a leading financial services business, we can see the large and complex risks emerging from a transition to a more sustainable planet. Our job is to help manage and mitigate these for our customers and clients, shareholders, and wider society by supporting a just transition and identifying new opportunities to change things for the better.

Our sustainability priorities

In March 2020 we decided to prioritise two areas for action: climate change, and diversity and inclusion, and to hold ourselves accountable with specific commitments in these areas. These are:

Commitments on climate change:

- To achieve net zero carbon emissions for our own operations by 2030 at the latest.
- To achieve net zero carbon emissions across our investment portfolios by 2050 to align with the Paris Agreement on climate change.

Commitments on diversity and inclusion:

- To achieve 40% female representation and 20% representation from Black, Asian and minority ethnic backgrounds by 2025. As an asset owner, to evaluate the diversity policy of investment managers that manage assets on our behalf, including how an investment manager challenges its investee companies to improve and maintain diversity in their business models.
- To achieve external benchmarks including the National Equality Standard and LGBT Great equality index.

Emerging themes in 2021

#1:
It's not just about climate

Doing our bit to tackle global warming is one of our two corporate sustainability priorities, and we've made some ambitious commitments to achieve net zero carbon emissions in our operations and investments (see page 40 and pages 44-57 for our Taskforce for Climate-related Financial Disclosures).

However, climate is one of many interconnected environmental systems on Earth, which carry potentially catastrophic economic and social risks if human activity puts too much strain on them. As responsible investors on behalf of our customers and clients, we need to consider issues such as biodiversity loss, pollution, water use and over-exploitation of natural resources, and how to use our influence to encourage more holistic thinking about sustainability by the companies in which we invest.

#2:
How do we achieve a just transition to a sustainable planet?

Moving to a more sustainable way of life will involve change for everyone, with some people more vulnerable to these changes than others.

We believe the costs and benefits of the transition to a low carbon economy should be shared fairly between generations, regions and communities. This is front of mind as we approach issues such as the phase-out of coal from our investments, for example. We expect this to take place earlier in developed countries than in developing countries, where there may be more reliance on coal, and less investment capital available to finance new infrastructure.

#3:
We need better data

Good sustainability data is essential to enable the financing of a more sustainable economy, so investors can make informed decisions about where to channel capital.

There's been encouraging progress on mandatory climate disclosures for public issuers during 2021, with more to come following the creation of the new International Sustainability Standards Board, the EU's Sustainable Finance regulations and the UK Government's forthcoming Sustainability Disclosure Requirements.

Through our membership of industry groups and disclosure organisations we're also helping to develop ways to measure corporate sustainability in new areas such as water use and biodiversity.

However disclosure by public-listed companies is not enough. As a major investor in private assets, we also need to see far better, and if necessary mandatory, disclosure by private companies.

#4: Delivery matters

As more companies, cities, regions and nations have committed to ambitious carbon reduction targets in 2021, more attention is now turning towards how these will be delivered. In our stewardship engagements with investee companies, particularly the high intensity carbon emitters, we're looking at the credibility and accountability of their net zero plans, not just their ambition. Equally, we hope and expect our own shareholders and customers to evaluate our own plans in the same way.

#5: Sustainable investing requires a long-term approach

Making the scale of change necessary to tackle global systemic issues like global warming, pollution and a just transition will require significant patient capital investment to fund breakthrough technological innovation and new infrastructure. With our scale, private asset expertise, and long-term outlook, we are well positioned to help even early stage companies develop the transformational solutions of the future.

Sustainability as an asset owner and an asset manager

We invest on behalf of our customers in two separate capacities, each with differing responsibilities.

On behalf of the With-Profits Fund and our pension savings and annuity books, our responsibility as an asset owner is to create the best customer outcome in terms of general well-being in line with our fiduciary duty, taking into consideration financial security. To do this, we make decisions about how to allocate assets, the financial and sustainability requirements for our investment mandates, and which asset manager should manage them. M&G Investments manages over 85% of the assets in the With-Profits Fund, with the remainder managed by firms which are not part of M&G plc.

As an asset manager, M&G Investments acts on behalf of individual savers and institutional clients including our asset owner, to meet their required investment objectives. As an asset manager, we must follow the mandates set out in fund objectives or agreed with institutional clients. Sometimes, mandates from external institutional clients will have sustainability policies which differ from those we apply as an asset owner. Our asset manager and asset owner each have ESG Investment Policies which are guided by our values of care and integrity, and share a number of sustainability commitments including the M&G plc target of achieving net zero carbon emissions across our entire investment portfolio by 2050, and the same sustainability principles.

Our sustainability principles:

- We will consider sustainability and ESG factors when determining our corporate strategy and new business initiatives.
- We will embed sustainability considerations throughout our business.
- We consider the interests of all our stakeholders and ensure our views on sustainability are consistent with our long-term approach.
- We will manage our businesses with the same principles of acting responsibly that we hold our investee companies to account on.
- We identify and incorporate ESG risk factors into our general risk management process. Read more on page 73 and 79-82.
- We review our sustainability thinking regularly in order to align with scientific and technological improvements, and changes in the global economy, ethics and consumer preferences. We aspire to be a thought leader, to innovate, and to advance understanding of sustainability issues.
- We aim to use our influence as a global investor and asset owner to drive positive change in sustainability policy and corporate standards. We believe in active asset ownership and management which encourages companies to transition towards a sustainable future.

One M&G

Supporting early-stage climate solutions

M&G's Catalyst team is investing up to £5 billion from our With-Profits Fund into early stage private businesses tackling some of the world's most urgent environmental and social challenges.

In July 2021, Catalyst invested in Storegga Geotechnologies, an independent UK company pioneering carbon capture and storage (CCS) solutions which stop carbon from being released into the atmosphere and permanently store it under the seabed. CCS can play a key role in helping limit global warming while heavy industries decarbonise. Storegga's Acorn project in Scotland has the potential to store more than 20 million tonnes of CO_2 emissions per year within its first decade of operation, or around half the household emissions of a city the size of London.

Delivering on our sustainability ambitions

While achieving a sustainable future requires long-term effort, we've made encouraging progress in our first year

Our 10 point sustainability plan

1. Develop our pathway to net zero 2050
2. Integrate ESG into our investments and accelerate engagement
3. Grow our Planet+ fund range
4. Set standards in sustainability and ESG policies
5. Set standards in disclosure and measurement
6. Help customers and their advisers understand the opportunities, risks and outcomes of sustainable investing
7. Lead collective action to deliver change
8. Develop pathway to net zero 2030 and set an example with our corporate sustainability practices
9. Be diverse and inclusive as a business and as an investor
10. Align all our people behind our sustainability ambition

Develop our pathway to net zero by 2050

2021 progress:

- We set an initial interim target to reduce carbon emissions by 50% for 20% of M&G Investments' assets under management by 2030 with a robust delivery plan and the support of our internal asset owner. We will grow this commitment over time with external client consent and improved carbon data.
- We joined the Net Zero Asset Owner Alliance, a global group of large investors committed to setting five-yearly interim targets to reduce their carbon emissions to zero by 2050.
- We committed to phase-out of investment in thermal coal by 2030 for OECD/EU countries and 2040 for developing countries, which is vital to cutting our portfolio carbon emissions.
- We conducted advanced climate scenario modelling so we can better understand the effect of climate change on portfolios (see pages 55-56).

Priorities for 2022:

- Publishing interim net zero targets for our asset owner, which will incorporate and build on the commitments made with the asset manager in 2021.
- Implementing M&G plc's position on thermal coal investment.
- Developing new methodologies for measuring private asset emissions data.
- Working to establish science based targets across all our investments where agreed methodologies for asset classes exist.

Integrate ESG into our investments and accelerate engagement

2021 progress:

- We developed a new ESG Investment Policy (effective 1 January 2022) covering all asset classes, with which all M&G Investments' fund managers must comply.
- We updated our Climate Hotlist of carbon intensive investments to reflect portfolio changes and by the end of 2021 we had initiated engagement with 34 of these companies to understand their carbon transition plans.
- Our asset owner joined our asset manager as a signatory to the FRC's UK Stewardship Code and a signatory to UN Principles for Responsible Investment.
- Our Catalyst early stage private assets strategy deployed over £650 million in ESG investments by the end of 2021, with a further £633 million committed.

Priorities for 2022:

- Continuing to develop new tools and approaches for integrating sustainability considerations in private assets, such as asset backed securities.
- Continuing our engagement with companies holding thermal coal assets, and with those on our Climate Hotlist.
- Setting out our expectations to investee companies globally on gender and ethnic diversity on boards.
- Continue to work with expert organisations and initiatives to build our capability and industry knowledge of sustainability issues including climate, nature and biodiversity.

Grow our Planet+ fund range

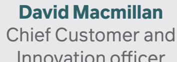
2021 progress:

- We grew our Planet+ range of sustainably-focused products to 20, with £5 billion in AUMA, including:
  - launching PruFund Planet, a sustainably-focused version of PruFund.
  - launching five new sustainable or impact fund strategies, including the M&G Better Health Solutions Fund, the M&G Sustainable Loan Fund and the Sustainable European Credit Investment Fund.

Priorities for 2022:

- Continuing to convert our SICAV funds to become SFDR Article 8 or 9 funds in 2022.
- Attracting more assets under management into Planet+ products.

"Our research among financial advisers suggests that half their clients want an ESG or sustainable alternative to conventional pension and savings funds."



David Macmillan
Chief Customer and Innovation officer

Set standards in sustainability and ESG policies

2021 progress:

- We committed to phase out public listed investments in thermal coal by 2030 OECD and EU countries, and 2040 for developing countries.
- Our asset owner has committed to phase out all investments in companies with over 5% of revenues from tobacco production.
- We developed a new ESG Investment Policy for M&G Investments, effective from 1 January 2022, and a new ESG Investment policy for our asset owner.
- We published our positions to protect biodiversity and support the just transition to a low carbon sustainable economy.
- We became a signatory to the UN Global Compact.

Priorities for 2022

- Implementing M&G plc's position on thermal coal investment.
- Developing thematic investment policies to help address natural capital degradation and support societal well-being.
- Continuing our collaboration with CDP on water security and holistic water transition issues.

We committed to phase out of thermal coal in OECD/EU countries by

2030

...and in developing countries by

2040

Set standards in disclosure and measurement

2021 progress:

- We achieved ISS ESG Rating Prime Status, which is the top decile.
- Through improving our ESG disclosures, we improved our standing in ESG ratings managed by S&P CSA, Sustainalytics, ISS and Tortoise.
- We achieved a CDP rating of B for our carbon disclosure reporting.
- Disclosing our water use and waste as a business (see page 50.
- M&G was among the first tranche of Financial Reporting Council-recognised signatories to the new UK Stewardship Code 2020.
- We joined the Taskforce on Nature Related Disclosure Forum, which will help shape future biodiversity and nature related measurement and disclosure.

Priorities for 2022:

- Continuing to support development and availability of investment sustainability data, particularly in emerging areas such as biodiversity and social equality.
- Collaborating with CDP to enhance their water questionnaire for investee companies.
- Publishing Sustainable Accounting Standards Board (SASB) aligned disclosures in our reporting.
- Publishing our annual Communication on Progress (COP) in alignment with the UN Global Compact's reporting framework.
- Publishing more sustainability metrics across our mutual fund ranges.

Help customers and their advisers understand the opportunities, risks and outcomes of sustainable investing

2021 progress:

- In March, we started publishing SFDR information for all our SICAV funds, to help international customers understand the level of ESG integration of the fund.
- In June, we began including carbon emissions data in factsheets for all M&G mutual funds invested in public securities.
- We conducted research into ESG disclosure templates to help customers better understand what ESG products aim to do, and into making the ESG sections of fund reports more accessible.
- We conducted extensive research on direct and advised customers' attitudes to sustainable investing, and how advisers can better support their clients' sustainability goals, which is already helping shape our proposition.
- Supported by new resources, tools and training, since July all M&G Wealth advice partners are required to discuss ESG considerations with their clients.

Priorities for 2022:

- In Q1, publishing our first With-Profits Fund Stewardship Report to help Retail and Savings policyholders and customers understand how and where their money is being invested.
- Continuing to add metrics and information on sustainability outcomes to fund reports and factsheets, including new sustainability indicators for our Article 8 and 9 SICAV funds.
- Working with the FCA and TISA to improve ESG customer disclosures across the industry.

Lead collective action to deliver change

2021 progress:

- On behalf of 570 other investors, we co-led a successful engagement with BASF, a chemicals company on the Climate Action 100+ list of the world's largest corporate greenhouse gas emitters. In March, this led to BASF committing to achieve net zero carbon emissions by 2050.
- We presented the investors' perspective on accelerating the Just Water Transition at the World Leader Summit at COP26.
- We chaired the International Corporate Governance Network's Natural Capital working group, looking for opportunities to engage investee companies on biodiversity loss, water use and other natural issues.
- As a member of the UK Sustainable Investment and Finance Association's policy committee, and the ABI Climate Working Group, we have played a key role in shaping our sector's roadmap to net zero.
- We joined the Powering Past Coal Alliance, contributing to their paper on Scaling up finance for the just transition beyond coal.

Priorities for 2022:

- As a member of the Taskforce on Nature Related Financial Disclosures Forum, supporting the development of investment decision useful nature-related financial disclosures.
- Continuing to work with CDP to help develop improved global water disclosures.

Develop pathway to net zero 2030 and set an example with our corporate sustainability practices

2021 progress:

- Due partly to the COVID-19 pandemic, and partly to our ongoing commitment to using 100% renewable electricity or energy attribution certificates, we achieved a 39% reduction in building Scope 1 & 2 emissions from 2020.
- To help reduce carbon emissions from home working, we launched a renewable energy switching service for UK colleagues.
- We engaged with our most carbon intensive suppliers to understand their ambitions around sustainability and how their operations impact on us and our Scope 3 carbon emissions.

Priorities for 2022:

- Extending the scope of our ISO14001 environmental management certificate to include more of our offices in early 2022.
- Continuing to transition our vehicles to a fully electric fleet, with a target date of 2026.
- Adding net zero clauses to our supplier contracts.
- "Say on Climate" resolution at our AGM in May 2022

Please see our greenhouse gas emissions statement and water use disclosure on page 50

Be diverse and inclusive as a business and as an investor

2021 progress:

- We improved the percentage of women in senior leadership (Executive Committee and direct reports) to 35%.
- We maintained the ethnic minority representation in senior leadership at 13% and also announced the appointment of a board director broadening the ethnic diversity of the board effective from May 2022.
- We achieved a year-on-year improvement of 1.2% in the UK gender pay gap, and have published our first ethnicity pay gap report.
- We achieved the LGBT Great Financial Services Gold Standard in recognition of the progress we are making towards our commitment of being an inclusive organisation
- We launched our Aspire programme (see page 66) which aims to improve diversity and inclusion in client-focused roles.

Priorities for 2022:

- Continuing progress against our 2025 commitments of diversity in leadership of 40% women and 20% Black, Asian or minority ethnic people at Executive Committee and direct reports level.
- Improving our colleague inclusion and well-being indices from 83% and 78% respectively in the 2021 OneVoice engagement survey.
- Setting minimum expectations for investee companies on Board gender diversity, recognising progress on a pathway to gender equality by 2027 can differ according to company location and size, and reporting progress and actions taken.

Align all our people behind our sustainability ambition

2021 progress:

- We've now delivered three phases of mandatory sustainability training to all colleagues.
- We've introduced mandatory sustainability objectives for all investment professionals.
- We launched our new Sustainability Hub to enable colleagues to access information and learning.
- Our 2021 One Voice survey of all colleagues indicated that 82% understand their role in our environmental sustainability efforts.
- Introduced sustainability metrics for executive LTIP arrangements.

Priorities for 2022:

- Continuing to develop our internal Sustainability Hub for colleagues and encouraging them to get involved.
- Keeping colleagues engaged through all our communication channels with our plans and our sustainability ambition.
- Reviewing executive long-term incentives, including alignment to corporate sustainability goals and commitments.

of colleagues say they understand their role in our environmental sustainability efforts

Our approach to climate change

Taking action on climate change is one of the key priorities in our approach to sustainability

We are pleased to present these climate-related disclosures which have been prepared on a basis consistent with the four pillars and eleven recommended disclosures as set out in June 2017 by the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (2017 TCFD Annex). In October 2021, the Financial Stability Board released additional guidance implementing the recommendations of the Task Force on Climate-related Financial Disclosures (2021 TCFD Annex), which supersedes the 2017 TCFD Annex. Whilst we have considered these in our disclosures, we acknowledge that we will require more time to implement the 2021 TCFD Annex and therefore intend to apply the recommendations more fully in our 2022 report, in line with the Listing Rules (Disclosure of Climate-Related Financial Information) (No 2) Instrument 2021 as published by the FCA.

The table below summarises how we comply with the recommendations of TCFD and where the relevant disclosures can be found in this report.

TCFD Recommendations	Description	Section
Governance		
Board's oversight of climate-related risks and opportunities	The M&G plc Board is responsible for setting our strategic approach to ESG (including climate) and our ESG values and principles. The terms of reference for both the Audit Committee and the Risk Committee have been updated to consider all ESG oversight.	ESG governance page 87
Management's role in assessing and managing risks and opportunities	Management of actions and opportunities arising from the assessment of ESG risks (including climate) are discussed at the Executive Risk Committee, chaired by the Chief Risk and Compliance Officer. Management of actions and opportunities arising from the assessment of ESG risks are also discussed by the Executive Committee as required.	Climate change and TCFD page 46
Strategy		
Climate-related risks and opportunities over various time horizons	In the short to medium term, the transition to net zero poses challenges to us as investors in terms of its impact on asset valuations. It also presents opportunities to channel capital into climate solutions. In the medium to long term, our operations and investment portfolios will be exposed to physical risks resulting from extreme weather events and to the impact of climate change on other environmental systems such as biodiversity and water, and through them on health, living standards and social stability.	Climate change and TCFD page 47
The impact on the organisation's businesses, strategy, and financial planning	As part of our strategic priority, One M&G, we have implemented steps to deliver on our 10 point sustainability plan, including developing our pathway to net zero. In building climate considerations into our overall strategy we are building out our product range, with an increased focus on integrating ESG factors. We are also altering the nature of assets in which we invest, particularly through our position on thermal coal and from growth in environmental impact investing.	Climate change and TCFD page 47
Resilience of the organisation's strategy, based on different climate-related scenarios	We have also analysed the potential impact on our portfolio of various climate transition scenarios in our scenario analysis on page 55. In our joint capacity as an asset manager and an asset owner, we are developing our resilience by transitioning to net zero through a mix of portfolio decarbonisation, investee engagement and ESG integrated investment approaches. The resilience of our balance sheet to climate risk has also been assessed as part of the ORSA.	Climate change and TCFD pages 51-53
Risk management		
Processes for identifying and assessing climate-related risks	Climate-related risks and other ESG factors are identified and assessed under a new bespoke Risk Management Framework which further enhances how we identify a complex range of ESG risks and is now being integrated across our business. We also combine a range of other approaches to help us identify, understand and articulate climate risk, including academic research, industry-shared learning, scanning tools and relevant data sources, scenario analysis and best practice guides.	Principal Risk page 73 Sustainability and ESG Risk Management pages 79-82

TCFD Recommendations	Description	Section
Processes for managing climate-related risks	We have established a new ESG Risk Governance structure across the business. This includes the setup of three discrete Risk Management Working Groups across our three lines of defence, focusing specifically on ESG (including climate) risk issues. We also ensure effective risk controls, policies and practices are in place to mitigate and reduce ESG risks, provide oversight of progress made against key objectives and flag any barriers to success.	Risk management pages 79-82
Integration of climate risks into the organisation's overall risk management	We consider climate change to be one of the thematic sustainability priorities within ESG risk with oversight from second line Risk & Resilience teams. Our bespoke ESG Risk Management Framework was implemented in 2021 and is now being integrated across the business. We take a holistic view of climate change risks, focusing on transition, physical and liability risks across a range of timeframes (Short-term: < 3 years; Medium-term: 3-10 years; Long-term: 10+ years).	Risk management pages 79-82
Metrics and targets		
Metrics to manage climate-related risks and opportunities	To assess climate-related risks and opportunities, we focus on all our operational and Scope 1 & 2 investment portfolio carbon emissions. We intend to phase in Scope 3 emissions as data becomes more robust and are developing further metrics to monitor and manage climate-related risks.	Climate change and TCFD page 54
Greenhouse gas emissions	Our total operational emissions in 2021 were 52% lower than 2020. Although partly affected by COVID-19 this also reflects our commitment to purchase renewable electricity, with 98% of our electricity use provided by renewable energy. This year we are also able to report our Scope 1 & 2 financed carbon portfolio emissions for equities and debt securities. These are set out in our climate metrics on page 54.	Climate change and TCFD page 50
Targets to manage climate-related risk and opportunities	We have committed to becoming carbon net zero in our own business operations by 2030 at the latest. We've also committed to achieving carbon net zero across our investment portfolios by 2050 to align with the Paris Agreement. In 2021 we published initial interim targets towards this goal for our asset manager, and will publish interim targets for our asset owner in 2022.	Climate change and TCFD page 47

Progress in reporting in 2021

Our reporting under the TCFD framework is evolving in line with our response to managing climate-related risk and opportunities. This year we have undertaken our first detailed bottom up climate scenario analysis covering equity, debt securities and real estate portfolios and developed our Net Zero Investment Framework portfolio metrics aligned to the Partnership for Carbon Accounting Financials (PCAF). We have published our position statements to protect biodiversity and support a just transition to a low carbon, sustainable economy and society. In 2021 we have extended our overall ESG reporting through publishing Sustainable Accounting Standards Board (SASB) aligned disclosures along with our annual Communication on Progress (COP) in alignment with the UN Global Compact's reporting framework.

Priorities for 2022

During 2022 we will continue to implement steps to deliver our 10 point sustainability plan, including progress towards the net zero carbon commitments for our business.

For our investment portfolios a key priority in 2022 will be the publication of interim net zero targets as an asset owner, which will incorporate and build on the commitments we have made as an asset manager in 2021 with the inclusion of targets for externally managed assets. Alongside this, both asset owner and asset manager will begin implementing our policy to phase out of thermal coal investment.

We are conscious that the management of climate-related risks and opportunities, including meaningful delivery against emissions reduction targets, is heavily dependent on the availability of reliable carbon data and methodologies. As major owners and investors in private assets, we will continue our efforts to develop new methodologies for measuring private asset emissions. This will help us increase the assets under management covered by our interim net zero targets.

Shareholders will be given the opportunity to vote on our climate transition roadmap through a "Say on Climate" resolution at the AGM in May 2022.

The role of management on climate

As part of our overall ESG strategy we have developed an ESG Risk Management Framework and Policy, which defines our approach to identifying, managing and assessing ESG risks, including climate. Management of actions arising from the assessment of climate-related risks and opportunities, such as the results of the scenario analysis performed across our investment portfolio, are discussed at the Executive Risk Committee, chaired by the Chief Risk and Compliance Officer. In addition to this, climate risks are also escalated within risk reporting, which is provided to both the Risk Committee and equivalent subsidiary Committees, with further escalation to the Board (and subsidiary Boards) as required. Management of actions arising from the assessment of climate risks and opportunities are discussed by the Executive Committee, as required.

All sustainability disclosures and reporting are presented to the Management Disclosure Committee (MDC) for approval, prior to the Group Audit Committee. The MDC is chaired by the Chief Financial Officer.

Our sustainability objective, with regards to ensuring that customers and clients can invest purposefully, joining us on our mission to help to fix the planet, is sponsored by the Chief Customer and Innovation Officer.

Our Environmental Policy is sponsored by our Chief People and Corporate Affairs Officer. This policy supports our goal to achieve net zero by 2030 across our operational activities.

As part of our overall ESG strategy, as set by the Board, the responsibility for ESG investment policy, on the asset management side, has been assigned to the Chief Investment Officer (CIO). Effectiveness of climate investment strategy is reported to the Executive Investment Committee, which the CIO chairs.

Management, as members of the Group Executive Committee, report directly into the Chief Executive, allowing material climate and other ESG issues and policy decisions to be escalated to the Board accordingly. In discharging their responsibilities, management attend various committees and initiatives to enable information sharing between business units and to monitor climate-related issues.

One example of these committees is the monthly Investment Leadership team meeting, in which material ESG issues (including climate-related) and ESG policy decisions are escalated for decision by the CIO.

Remuneration

Our Executive Committee all have sustainability objectives within their personal performance management scorecards, which are cascaded within each of their organisations as appropriate.

The executive LTIP arrangements for 2021 include a 7.5% weighting attributed to sustainability, focusing on reducing the Company's Scope 1, 2 and 3 emissions, relative to the 2019 base year.

More information on the Role of the Board in ESG governance
Page 87

Board oversight

Fund Board | **Regulated Entity Board**[i]

Accountability and oversight of ESG for the products/investments within their remit

M&G plc Board

Responsible for setting Group's business strategy including ESG, purpose, values and culture

Audit Committee	Risk Committee	Remuneration Committee	Nomination Committee
Reporting and Assurance	Assessment of Climate Risk	Senior Management Remuneration Targets	Board Skills and Experience

i Includes the With-Profits Committee.

Executive oversight

Executive Committee

Responsible for implementing the Group's business strategy including ESG, purpose, values and culture, and setting ESG priorities

Executive Investment Committee	Management Disclosure Committee	Executive Risk Committee
Climate Investment Strategy	Reporting and Disclosure	Assessment of Climate Risk

Our climate strategy and targets

Strategy

Climate change, biodiversity loss and ecosystem collapse are now recognised as a global risk in terms of likelihood and impact, affecting all geographies, sectors and economies. Addressing these risks requires a systemic shift in global production and consumption, and in the way the financial sector allocates capital. Insufficient action today increases the risk of much greater policy action in the future, disorderly transitions and market shocks.

We recognise that the actions required to address these risks are likely to have a material impact on our business, clients, customers and shareholders.

Climate has been an area of focus during 2021, and has helped shape new propositions within our Planet + range of sustainably-focused products. Our Business Plan takes into account demand when forecasting AUMA and therefore will indirectly include the short term impact of growing demand for ESG integrated products. In additional to this all market indicators used in the Business Plan and to derive forecasts over the projection period, including relevant market returns are assumed to include all currently available information regarding the effect of climate risk on specific sectors.

Due to the horizon of the Business Plan (3 years), only the short-term transition risks are considered relevant.

Physical and transition climate risks have also been assessed as part of our Own Risk Solvency Assessment (ORSA). This included stress-testing our solvency coverage ratio across 3 climate scenarios, covering different climate pathways over a 30 year time horizon, with varying levels of transition to a low carbon economy (including nil transition).

Under each of the scenarios tested, the results remained within our solvency risk appetite, demonstrating our resilience as a business.

Our priority, as part of our 10 point sustainability plan, is progress towards our net zero carbon commitments. This is the most significant way we can directly reduce our contribution to climate change as a business. This forms part of our key strategic priorities under One M&G for 2022.

Our net zero commitments are supported by a number of initiatives, from implementation of our coal policy, to updating our product range, continuing to transition our existing European funds to SFDR Article 8/9 standard on sustainable investing.

As an international savings and investments business we aim to use our influence in the financial services sector to press for change, through a combination of leveraging investor power and collaboration with regulators and organisations helping to fight climate change.

Our net zero commitments

The Inter-Governmental Panel on Climate Change (IPCC) has concluded that to keep global warming under 1.5°C, carbon emissions will have to be cut by 45% between 2010 and 2030 and reach net zero by or before 2050. That is why we have committed to being carbon net zero in our own operations by 2030 at the latest, and to achieve carbon net zero investment portfolios by 2050. When referring to our investment net zero targets this includes Scopes 1, 2 and 3 carbon emissions (including investments, operations, supply chain).

Thermal coal is the single largest source of CO_2 in the power sector and one of the largest contributors to climate change. It is therefore a priority in our climate planning due to its material impact. In order to limit global warming to 1.5°C, the IPCC indicates that combustion of thermal coal needs to be phased out by 2030 in OECD and EU countries and by 2040 (latest) in developing countries, with around 80% of the reduction occurring within the next decade.

As an asset owner and asset manager we have committed to play our part by phasing out thermal coal from our public listed investments to these timescales. You can read more about this on page 51.

In setting a later target for developing countries, we recognise that the effects of addressing climate change should not be disproportionately borne by the poorest. We believe that the costs and benefits of the transition to a more sustainable economy should be shared fairly between generations, communities and regions, a position set out in our Just Transition statement published in 2021.

Our operational targets

We aim to become carbon net zero by 2030 across our corporate operations. The impact of our corporate emissions is relatively small compared to that of our investment portfolios, but we aim to lead by example and therefore have set ourselves net zero targets, aligned with the Paris Agreement. When referring to our operational net zero targets these are defined as below:

- reduce our Scope 1 & 2 (market based) carbon emissions from our direct operations by 46% by 2030 from a 2019 baseline. The remainder of our Scope 1 & 2 emissions will then be offset.
- reduce our Scope 1 and 3 business travel carbon emissions by 46% by 2030. Similarly the remaining emissions will be offset.
- engaging with suppliers on science based emissions targets, with an aim to cover a minimum of 67% of our Scope 3 supply chain emissions by 2030.

We have also committed to purchase 100% renewable electricity across our operational estate by 2025.

> "Embedding the principles of sustainability throughout our business means embracing constant change, at a pace far greater than any we have experienced in our 170-year history."
>
> **John Foley**
> Chief Executive

How climate risk is built into our operations

Reporting

For our corporate activities we report on our Scope 1, 2 & 3 emissions on at least an annual basis and obtain third party verification across Scope 1 & 2 and most applicable Scope 3 emissions (see pages 49-50).

Culture

We have rolled out mandatory training for all colleagues to raise awareness of the actions the business is taking to address key issues around sustainability, including climate, and how they can support these behaviours. In 2021 we also launched a campaign "Carbon Zero Heroes", where colleagues shared their climate stories and have developed an internal hub which hosts sustainability information and resources that all colleagues can access.

Risk assessments

We have an Environmental Policy which is applicable to all of our offices internationally which details the requirements we have set for our own environmental footprint from the operation of our buildings, business related travel and our supply chain. During 2021 we engaged with each of our offices on their environmental performance to understand opportunities for improvement.

We also maintain an environmental management system certified to ISO14001 across much of our UK estate and will extend the scope of the certificate to include more UK offices in 2022. Our other office locations align with the principles of our environmental management system.

Our UK environmental management system includes a sustainability risk assessment for our corporate operations. As part of this process we understood our impact linked to home working as a new material source of carbon emissions. As a result we have purchased carbon off-sets which cover our business travel and estimated colleague homeworking emissions in 2021. We also launched a green energy switching service for our UK colleagues.

We are committed to procuring high quality off-sets externally verified by Gold Standard and Verified Carbon Standard and support the Oxford Principles for Net Zero Aligned Carbon Offsetting.

Office energy use

In 2021 we reduced our emissions in relation to office energy use by significantly more than our annual target of 4.2%, due to reduced occupancy relating to COVID-19 and through continued adoption of energy attribute certificates (EACs) and green tariffs. In 2021 98% of our electricity use was provided by renewable energy (74% via procurement and 24% via EACs). The remaining 2% could not be covered due to a limited availability of green energy in those locations. We will continue to target reductions in our Scope 1 & 2 emissions from our offices, whilst also working towards our 100% renewable electricity commitment. Our office selection now includes requirements around energy use and type as well as increased use of tools such as green lease clauses to enable better provision of environmental data.

During 2021 we made changes to our offices to reflect how our colleagues will use our spaces moving forward.

We have also completed lamp replacements in our Bath office switching to LED, expected to reduce lighting energy use by 40% in that office.

Waste

We aim to reduce the volume of waste each of our offices generate, maximise recycling rates and minimise the amount we send to landfill. Our UK operational recycling rate for 2021 was 66%. We have a zero waste to landfill commitment for our UK offices where we have operational control and promote this as best practice for all other offices.

Travel

In 2021 our business travel emissions were 96% lower than our 2019 baseline, and represented 16% of our operational emissions. The reduced emissions from business travel were largely due to ongoing travel restrictions across the world during 2021 as a result of COVID-19.

While travelling will be necessary in some circumstances, we are encouraging colleagues to maintain reduced levels of business travel emissions through continued use of technology and adoption of lower carbon modes of travel. To support this, where colleagues use our central travel booking system we will provide colleagues with carbon impact data at point of booking to help them make informed decisions.

For our company fleet we have implemented an ultra-low emission vehicle policy for all company cars and aim to transition our car fleet to fully electric vehicles by 2026.

CDP

In 2021 we achieved a rating of B (2020: A-) from CDP, which assesses how businesses are responding to climate risk and opportunities. Our rating represents a fall from the previous year and aligns with the average score for the financial services sector as CDP continue to evolve their disclosure and scoring system in response to market needs and the rising urgency of the environmental challenges.

Suppliers

The goods and services we procure are a significant source of Scope 3 emissions for our corporate operations. Throughout 2021 we met with a selection of our suppliers which make up 68% of our supply chain carbon emissions (based on a 2019 baseline) to understand their sustainability plans and how their operations impact on our Scope 3 carbon emissions.

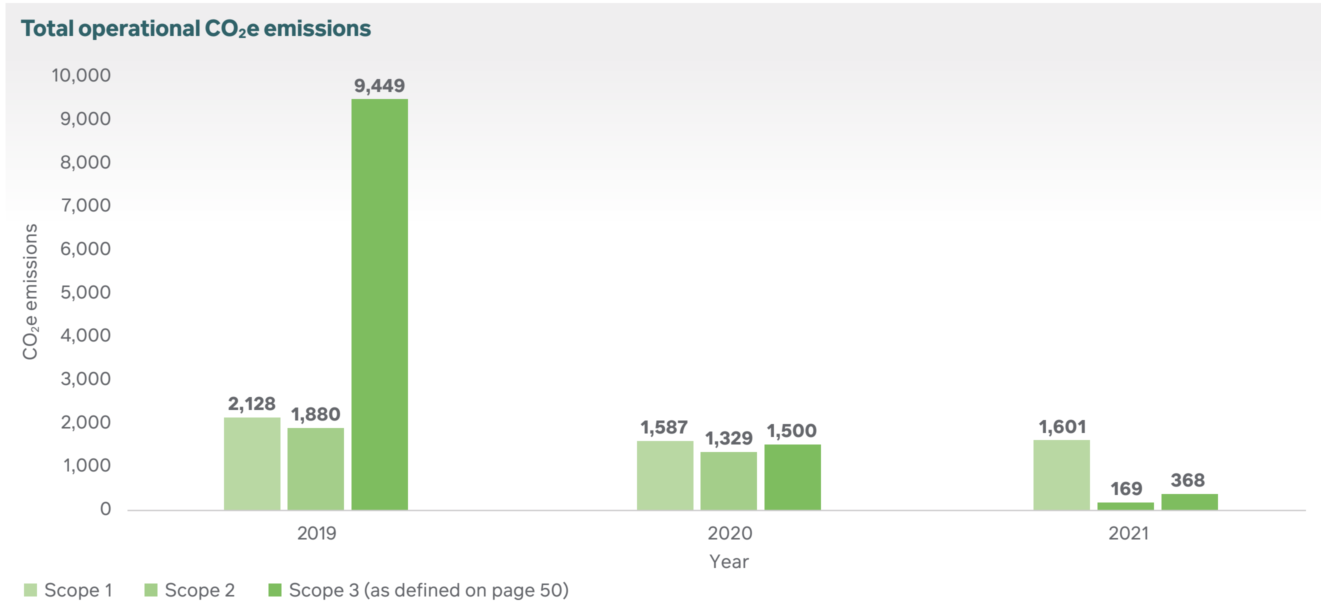
We have updated the sustainability requirements in our Supplier Code of Conduct and now require all suppliers to have clear procedures in place to ensure direct and indirect environmental impacts associated with goods and services are understood, measured and managed. All our supply chain decisions that involve a market assessment now include environmental factors as part of the decision-making criteria.

Enforcement actions

No fines or regulatory actions occurred during the year for environmental incidents.

Progress towards net zero

In 2021 overall our operational emissions have reduced, this is as a result of lower business travel and lower building occupancy, due to ongoing restrictions associated with COVID-19 and our purchase of renewable electricity. Whilst this has aided in our journey towards achieving our emissions targets for business operations this year the challenge moving forward will be to maintain the progress we have made, through the initiatives highlighted in how climate risk is built into our operations.



Our operational performance for the year

Similarly in 2021 our office environmental performance has continued to be impacted by the COVID-19 pandemic. Many of our offices, particularly in the UK, have not been fully operational throughout the year as staff continued to work from home. Inconsistent occupancy levels have resulted in unusual performance patterns compared with a typical year.

	2021	Restated 2020[i]	Restated 2019[ii]
Global carbon emissions – Scope 1 & 2 (market based) (tCO_2e)	**1,769***	2,916	4,007
Energy use for electricity and fuel (MWh)	**21,604**	19,417	25,686
Water consumption across occupied estate (m^3)[iii]	**17,516***	12,250	32,385
UK waste from operational activities (tonnes)	**141***	188	365
UK waste from operational activities – Scope 3 emissions (tCO_2e)	**92***	169	502
Travel emissions (business travel – Scope 3 and company vehicles – Scope 1&2) (tCO_2e)	**348**	1,752	9,852

* KPMG has provided limited assurance over selected metrics in 2021 (as indicated by * here) in accordance with “International Standard on Assurance (UK) 3000” – “Assurance Engagement other than Audits or Reviews of Historical Financial Information (ISAE (UK) 3000)” and, in respect of the greenhouse gas emissions, in accordance with “International Standard on Assurance Engagements 3410” – “Assurance Engagement on Greenhouse Gas Statements (ISAE 3410)”, issued by the International Auditing and Assurance Standards Board. The assurance statement can be found on our website.

i 2020 data has been re-stated to include updated data. Previously modelled data included a small number of proxied data points.

ii 2019 data has been re-stated to calendar year. Previously disclosed October 2018 to September 2019 in the 2019 annual report.

iii The increase in water consumption is the result of an increase in the number of offices reporting consumption – 22 in 2021, up from 13 in 2020.

Greenhouse Gas Emissions Statement

We have compiled our global greenhouse gas (GHG) emissions in accordance with the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

GHG emissions are broken down into three scopes; we have included full reporting for Scope 1 & 2, and selected Scope 3 reporting as best practice. Scope 1 emissions are our direct emissions from the combustion of fuel, fugitive emissions and company-owned vehicles. Scope 2 emissions cover our indirect emissions from the purchase of electricity (including use of company electrical vehicles), heating and cooling. We have reported our Scope 2 emissions using both the location and market-based methods in line with the GHG Protocol Scope 2 Guidance. Our Scope 3 footprint includes business travel booked through our central travel management company, car travel in colleague owned cars, global water consumption (where data is available) and UK waste generated from our occupied properties with operational control.

We continue to review the extent of our Scope 3 reporting and increase coverage where practicable. Please refer to our Basis of Reporting for further detail on our methodology, which can be found on our website.

		2021		2020		2019	
		UK	**Total**	UK	Total	UK	Total
Scope 1 (tCO_2e)	Natural gas, oil (generators), vehicle fleet, refrigerants	**1,531.28**	**1,600.57***	1,454.58	1,587 .03	1,936.40	2,127.56
Scope 2 (tCO_2e) Location based	Electricity, Purchased heat and steam	**2,237.37**	**4,215.02***	2,208.00	3,214.14	4,213.00	5,848.90
Scope 2 (tCO_2e) Market based	Electricity, Purchased heat and steam	**2.56**	**168.50***	188.73	1,328.68	105.00	1,879.90
Scope 1 & 2 (tCO_2e)[i]	[i]when reporting totals market-based emissions are used	**1,533.84**	**1,769.07***	1,643.31	2,915.72	2,041.40	4,007.46
Energy	EAC volumes (MWh)	**43**	**3,555**				
	Energy use (kWh)	**17,837,006**	**21,919,921***	16,782,421	19,416,554	22,940,668	26,205,149
	tCO_2e per FTE (Scope 1 & 2)		**0.31***		0.52		0.74

		2021	2020	2019
Scope 3 (tCO_2e)	Air travel (booked through central travel booker)	**251.96***	1,281.00	8,946.00
	Land travel (booked through central travel booker)	**20.56***	46.30	126.60
	Water (global where available data)	**2.65***	4.22	11.18
	Waste (UK only)	**92.35***	169.00	365.00
	Total	**367.52***	1,500.52	9,448.78
	Global Scope 1, 2 and 3 (tCO_2e)	**2,136.59***	4,416.24	13,456.24

Reporting period:	1 January 2021 to 31 December 2021
Baseline year:	2019
Independent Assurance:	KPMG has provided limited assurance over selected environmental metrics (as indicated by *) in accordance with "International Standard on Assurance (UK) 3000" – "Assurance Engagement other than Audits or Reviews of Historical Financial Information (ISAE (UK) 3000)" and, in respect of the greenhouse gas emissions, in accordance with "International Standard on Assurance Engagements 3410" – "Assurance Engagement on Greenhouse Gas Statements (ISAE 3410)", issued by the International Auditing and Assurance Standards Board. The assurance statement can be found on our website.
Consolidation (boundary) approach:	Operational control
Consistency with financial statements:	M&G plc owns and manages assets which are held on its balance sheet in the financial statements over which it does not have operational control due to fund governance structures. These are excluded from the scope of reporting under the operational control approach.
Emission factor:	Scope 1 and 3 reporting uses the UK DEFRA 2021 GHG Conversion Factors. Scope 2 calculations use the IEA GHG 2021 Conversion Factors for location-based reporting. Market-based reporting uses supplier emission factors for our UK REGO-backed supply and RE-DISS factors where available.
Accounting methodology:	The Greenhouse Gas Protocol Corporate Accounting and Reporting Standard, as amended in 2004. UK Government Conversion Factors for greenhouse gas (GHG), 2021 – for energy conversion from passenger vehicles
Materiality threshold:	5%
Data restatements:	See footnotes on page 49 for restatements made to prior years.

Climate and our asset manager

Climate targets and commitments

As an asset manager we have committed to achieve carbon net zero investment portfolios by 2050, across our total assets under management, and to align with keeping global warming to 1.5°C.

In 2021, as a founding member of the Net Zero Asset Managers Initiative, we published our initial interim net zero target for 2030 to reduce Scope 1 & 2 carbon emissions by 50% for £58 billion in public listed equities and debt securities, using 2019 as the baseline year. The £58 billion committed represents 20% of our total AUM as an asset manager, excludes our real estate portfolios and is managed on behalf of our internal asset owner. Scope 3 emissions are not included at this stage due to poor data availability.

By focusing initially on this pool of assets, we will develop best practices in alignment to net zero and be in a good position to add further assets under management over time.

Pathway to net zero

Our journey towards our net zero target has four main tracks:

- Engaging with investees to ensure they have science based, carbon transition plans aligned with the goals of the Paris Agreement.
- Engaging with clients and customers to encourage a move towards Paris-alignment of mandates and fund objectives.
- Increasing capital directed to climate solutions, companies and projects.
- Transitioning portfolios, or if unsuccessful, divesting.

These will be supported by:

- Collaboration with regulators and other organisations to improve climate data reporting and standardise measurement methodologies.
- Collective action to accelerate investee alignment to the Paris Agreement climate goals.
- Continuous development of our own processes, data and reporting to enable us to deliver effectively and accountably.

Similarly for our direct real estate investments we are focusing on the following areas to achieve net zero:

- Reducing operational and embodied carbon emissions from our properties.
- Taking our occupiers on the net zero journey to align to our 2050 climate commitment.
- Reducing emissions through onsite renewable energy as well as procurement of green electricity.

We are one of the founding signatories of the Better Buildings Partnership (BBP) Climate Change Commitment, which supports our net zero commitment across our real estate portfolio.

Net zero investment framework

Our new Net Zero Investment Framework (NZIF) draws on our work as a member of the Paris Aligned Investor Initiative and the Institutional Investor Group on Climate Change (IIGCC) to establish actions, metrics and methodologies to enable us to decarbonise our portfolios, reduce climate-related risk and allocate more to climate solutions. We do not take a linear approach to decarbonisation because this can create unintended consequences: such as incentivising divestment to pass the problem onto someone else, and missing out on transition related opportunities. We believe that encouraging intensive emitters to put in place robust transition plans and invest in climate solutions is a more responsible and effective approach.

Coal

Phasing out thermal coal from our investment portfolios is key to achieving our net zero targets. Our position on thermal coal is a forward-looking approach which supports investee companies which have credible science based thermal coal phase-out plans compatible with IPCC recommended timelines. During 2021, we have performed extensive screening and analysis of our portfolios to understand our exposures and flag investees of concern. We have been engaging actively with these investee companies to identify those which cannot or will not align to our position and are thus candidates for divestment from April 2022. In parallel, we have been working with clients and our regulator to secure the required consent to implement this policy across our mutual fund ranges and segregated mandates.

Client engagement

We are committed to supporting all our clients to make informed climate decisions and increasing the numbers and proportion of those committed to net zero by 2050, which will in turn enable us to expand the coverage of our own net zero targets. A number of our segregated clients have set, or are setting net zero targets for their assets at scheme level, and we are working with them to align their mandates.

Data and analysis

Across the asset management industry, the biggest challenge in understanding climate risk and measuring progress is availability of reliable corporate targets and emissions data: particularly Scope 3 emissions data, and data for private assets.

In a bid to overcome this challenge we have developed a wide range of proprietary tools. These are available to our analysts and investment teams to help them identify, understand and assess climate risks for different types of assets, drawing on a database of ESG information refreshed daily by our data vendors.

In 2020 we developed a proprietary Integrated ESG Scorecard which acknowledges the qualitative nature of many ESG considerations within the context of a structured and disciplined framework. With this scorecard, we are able to perform climate vulnerability assessments for over 1,400 companies, looking at the potential risks and opportunities from possible transition scenarios. We have also developed a separate scorecard for asset-backed securities transactions.

Other tools include:

- Our Climate Dashboard which collates quantitative outputs alongside artificial intelligence (AI) to deliver contextual climate information.
- Our Portfolio Analysis Tool which allows fund managers to visualise their portfolios against existing or prospective ESG benchmarks, including NZIF climate metrics, and can provide a forecast trajectory of emissions across portfolios.

We have also recently developed an AI based tool to estimate emissions of privately owned companies which do not publish carbon data.

One M&G

Filling carbon data gaps

In order to understand and manage climate risk in our investment portfolios, and guide our transition towards net zero, we need to be able to assess and monitor portfolio level carbon emissions closely. As major investors in private assets, this is a particular challenge because unlike public listed companies, private companies generally do not disclose detailed financial and environmental data.

To help address this problem, we built the "Carbonator", a web application that combines multiple machine learning models to estimate Scope 1 and 2 emissions of private companies based on the business features and reported emissions of public listed companies. Armed with this information, our analysts can compare the estimates against the relevant peer group and use the results as a basis for climate engagement with an investee company.

Across our real estate portfolio our current environmental data management programme captures environmental performance data (including energy and carbon) on all assets where we have operational control on energy use, water and waste. We also engage with occupiers to gather the environmental data for assets where they have operational control. This data is subject to a rigorous quarterly review process and annual collation by our external consultants.

Sustainable investment opportunities

In 2021 we grew our Planet + range of sustainably-focused products to 20, with c.£5 billion in AUMA. These offer customers a wide choice of ESG-screened, sustainable and impact strategies across different asset classes and themes. The M&G Climate Solutions Fund, for example, aims to offer customers capital growth and income by investing in companies tackling the challenge of climate change through clean energy, green technology or the circular economy.

The M&G Global Sustain Paris Aligned Fund only invests in companies which have science-based targets to reach net zero by 2050, or which have significantly lower carbon intensity than the fund's benchmark.

The Catalyst team deployed over £650 million on behalf of the asset owner into sustainability-focused private investments by the end of 2021, with a further £633 million committed. These included companies aiming to mitigate or reduce climate risk, such as carbon-neutral transport solutions, and carbon capture and storage. An example is our investment in Storegga Geotechnologies, which you can read more about on page 39.

During the year, Infracapital, our private infrastructure equity arm, held a final close of its latest greenfield infrastructure investment strategy, raising €1.5 billion from a global investor base. Of this, more than 50% of the capital has been allocated to businesses at the forefront of supporting the decarbonisation agenda and digital connectivity in Europe including EV battery storage, electric buses, and thermal battery energy solutions.

Next steps

Our key priority for 2022 is the integration of the NZIF and scenario analysis output into decision-making across our investment teams. Leveraging our NZIF data platform, we will work on building bottom up transition plans to enable us to set targets for sub portfolios, sectors, financing transition and engagement.

Our other priorities include:

- Scaling our portfolio emissions climate targets through client engagement.
- Implementation of our coal policy.
- Continuing engagement with our Climate Hotlist investee companies to understand their climate transition plans.
- Growing our Planet+ range of sustainably-focused strategies.

In terms of direct real estate investments, we are strengthening our consideration of physical and transition risks (specifically energy efficiency and net zero carbon performance) by undertaking work to set interim targets at fund levels.

Following on from scenario analysis, we are undertaking a detailed physical risk review of our highest risk investments and going forward will be working to enhance our capabilities to pre-screen potential investments for climate risk.

Climate and our asset owner

Climate targets and commitments

As an asset owner, sustainability is a key part of our decision-making. Our belief is that businesses and behaviours that reflect ESG best practices, including proper consideration of climate related risk and opportunities, are better positioned to deliver sustainable success over time horizons that meet the needs of our savers and policyholders.

In September 2021 we joined the UN-convened Net Zero Asset Owners Alliance (NZAOA), the global institutional investor group acting to help limit global warming to 1.5°C as outlined by the Paris Agreement. As an NZAOA member we are committed to transition £128 billion of our investment portfolios to net zero carbon emissions by 2050.

In 2021 we began the process of implementing our position on thermal coal to meet our 2030 and 2040 commitments. This work has been performed alongside our asset manager, M&G Investments.

Pathway to net zero

To provide transparency on how we are delivering on our climate commitments, we have also become a signatory of the Principles for Responsible Investment (PRI), the UN-backed organisation promoting the integration of ESG factors in asset ownership decisions. Our responsible investment activities will be assessed by PRI annually from 2023.

In 2021 we became signatories of the Financial Reporting Council Stewardship Code, which sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them. We have made our first submission to the Code, outlining how we comply with its 12 principles that demonstrate effective investment stewardship, and we will be making our second submission in 2022.

Integrating climate risk into asset allocation/ manager selection

We consider climate risk as a key investment risk when setting our asset allocations, alongside other investment risks. We therefore incorporate climate risk analysis into our investment assumptions and modelling processes, which are used to generate strategic asset allocations.

We have processes in place internally to monitor and report on the effectiveness of our climate investment strategy to the Executive Investment Committee for PAC.

We conduct scenario analysis in order to assess the exposure to climate-related risks of our assets under management across asset classes and geographies. This analysis enables us to assess the exposure of our portfolio to climate risk on a forward-looking basis using various scenarios. We then convert exposures into risk measures for different asset classes and regions in aggregate, whilst remaining cognisant of significant heterogeneity within each asset class.

In addition to scenario analysis, we also consider measures of climate vulnerability and adaptability when we assess country risk. Such measures help us modify and make more precise the risk premium and volatility assumptions we use for portfolio construction. Countries categorised as high climate risk exposures are given higher volatility assumptions, impacting their allocation within our risk budget. Within the regions we consider, both Asian and other emerging markets appear as higher risk from a climate perspective.

Where there is sufficient heterogeneity among companies listed in a particular market, we take into account the performance of these on various ESG measures, of which climate metrics are a key component. We may then construct a customer benchmark index to ensure the portfolios are tilted in such a way as to better optimise their climate risk exposures.

We may also employ techniques such as portfolio exclusion (e.g. companies deemed to be in breach of the United Nations Global Compact Principles on the environment), and encourage engagement from our asset managers with companies we invest in to change their behaviour to reduce their exposures to climate risk.

ESG risks including climate are also integrated into the asset owner's manager selection and ongoing investment due diligence through the initial screening process; investment due diligence meetings; and mandate design. One example is our £5 billion Catalyst mandate, which has climate risk at its forefront.

In 2021, we worked alongside our asset manager, M&G Investments, as it committed to reduce carbon emissions by 50% by 2030 for £58 billion in public listed equities and debt securities, all of which represent funds managed on our behalf as an asset owner.

Next steps

As a result of our NZAOA membership we have committed to publish interim targets every five years. Our priority for 2022 is to develop an appropriate NZAOA interim carbon emission reduction target for 2030 and will continue to build on this with the addition of targets for our externally-managed portfolios. The target will be science based and in line with the Paris Aligned Investment Initiative Net Zero Investment Framework and NZAOA Target Setting Protocol. We are currently embedding the monitoring and reporting required for the NZAOA.

Climate metrics

Over the past 12 months we have made significant progress, enabling greater transparency through an expanded set of climate-related metrics, which build on the weighted average carbon intensity (WACI) disclosed in our 2020 sustainability report, to include financed carbon emissions across equities and debt securities. WACI published in our 2020 Sustainability Report is not directly comparable due to differing methodology and having historically been calculated in USD. Calculation of these metrics is an important step forward in our commitment to improving transparency and monitoring progress towards our climate commitments and targets.

Financed carbon emissions and weighted average carbon intensity have been calculated in line with the approach prescribed by the Partnership for Carbon Accounting Financials (PCAF), utilising data sourced from Morgan Stanley Capital International. More information on the basis of these calculations and limitations is set out in the supplementary information on page 316 and results should be interpreted taking these limitations into consideration.

The coverage of these metrics represent 59% of total AUMA, excluding real estate and cash.

	Overall	Equities	Debt securities
Financed Carbon Emissions – Scope 1 & 2 (mn tCO_2e)	12.41	7.41	5.00
Financed Carbon Emissions/AUM – Scope 1 & 2 (tCO_2e/£m invested)	100.60	109.23	90.06
Weighted Average Carbon Intensity (tCO_2e/£m sales)	244.00	250.42	238.37

Emissions data has been compiled for our direct real estate assets, however due to the work involved to collate this data the most recent figures available are for the year ended 31 December 2020. These have been calculated as follows:

- Scope 1: Emissions from the combustion of fuel e.g. from use of gas to heat buildings.
- Scope 2: Indirect emissions from electricity consumption or other energy generated by third parties.
- Scope 3: Indirect emissions from our value chain e.g. occupier energy consumption, emissions from materials purchased, and our supply chain emissions.

The carbon emissions below represent 100% of the direct real estate equity portfolio held by our internal asset owner as at 31 December 2020. The asset manager figures account for 90% of direct real estate 2020 AUM of £32 billion (excluding cash). Carbon emissions are not provided for indirect externally managed funds and for a limited number of discretionary funds where we continue to engage with investors to enable gathering this data

	Asset Manager	Asset Owner
GHG Emissions Scope 1 & 2 (tCO_2e)	82,892	35,157
GHG Emissions Scope 1, 2 and 3 (tCO_2e)	689,868	351,558

Climate impact on our investment portfolio

We have conducted detailed work with analytics providers on scenario analysis to evaluate how various climate scenarios could affect the future value of our AUMA. These climate scenario models serve as a lens to assist better awareness and understanding showing physical and transition risks present across our holdings. This will better equip us to integrate climate into decision-making and enact mitigation and adaptation planning in our portfolios, while working toward our net zero commitments.

High level methodology

M&G procured the services of two third parties to undertake scenario analysis at the asset/counterparty level: Baringa Partners for financial assets (listed equities and public debt securities); and Marsh for real estate asset modelling. Physical risk for each was supported by the Cross Dependency Initiative (XDI). Both third parties are industry-leaders, and have extensive experience undertaking climate scenario modelling.

Limitations

Scenario analysis involves making a wide range of assumptions about the future state of the world and translating these assumptions into company and security impacts. All scenario analysis is, by its nature, uncertain. Climate scenario analysis in particular is limited by the complexity of projecting future climate states and challenges sourcing reliable and complete data required to complete counterparty-level modelling. Details of the modelling assumptions applied and limitations is set out in the supplementary information on pages 314-318 and results should be interpreted with these in mind.

Key outputs

The equities and debt securities climate change model provides outputs based on three scenarios:

- An orderly 2°C scenario, predicting a 1.6°C temperature rise by 2081-2100 as a result of immediate climate action.
- A disorderly 2°C scenario, in which climate action is not taken until 2030.
- A 4°C scenario, which predicts an average temperature change of 4.3°C by 2081-2100, assuming no global response to climate change.

The model produces key outputs of Value at Risk and Temperature Alignment for each year of the projection period.

The real estate asset modelling output is limited to Representative Concentration Pathway (RCP) 2.6 and 8.5 only, as produced by the IPCC. These broadly align to the orderly 2°C scenario and a 4°C scenario. The output of this model is limited to Value at Risk due to the nature of the investments.

Value at Risk identifies how much of an asset's value could be lost based on global carbon prices, major electrification and damage to physical assets as a result of extreme weather. The model quantifies the extent to which physical and transitional climate risks impact the value of our equity, debt securities and real estate assets, including anticipating default rates on loans.

The temperature alignment metric indicates an asset's alignment to a particular future temperature change. The equities and debt securities climate change model uses companies' historical emissions data to predict future emissions intensity, and compare these projected figures against sector- and region-specific pathways, to provide a temperature alignment metric for each asset. This metric is a valuable tool in identifying outliers in portfolios, and when aggregated to portfolio level can be a useful tool in setting strategy and investment decisions.

Asset selection

Modelling every counterparty on a bottom up basis across all funds is not yet feasible at this stage due to the availability of corporate climate information. We have however ensured that the models have good coverage across all key funds and biggest counterparties, and cover three of our most significant asset classes: equities, debt securities and real estate. Where appropriate, we have proxied missing data points against industry, sector and geographical averages to improve asset coverage.

For the asset owner, we have modelled the largest with-profits portfolio (where our PruFund Growth product is invested) and our largest shareholder annuity portfolio. Coverage by asset is not complete, in particular we have only modelled our publicly listed assets (where data is available) and our property portfolio. Little data is currently available for our private and alternative assets. We will develop our capabilities as models are enhanced and data collection improves.

In total, the models covered around 63% of total AUMA, excluding cash.

The equity and debt securities results represent 1,755 distinct counterparty/security exposures covering c.£184 billion of AUMA. The assets modelled cover all sectors and geographies to which we have significant exposure.

Our Real Estate results represent 876 distinct assets.

Further enhancements

For future iterations of our TCFD scenario analysis, we will aim to:

- More fully model our balance sheet, incorporating consideration of liabilities (and perhaps capital position) alongside our asset portfolios in each climate scenario.
- Improve data coverage across asset classes other than equities, debt securities and property. We are a diversified investor with a material portion of our asset portfolios invested in alternative and private assets which are not currently included in our scenario analysis modelling due to current data limitations.
- Carry out scenario analysis across asset portfolios other than the ones specified in this report.

Ultimately, the objective of this scenario analysis is to highlight upcoming trends and inform users on how our business is exposed to future climate change risk at a counterparty, sector, and portfolio level. These results can then be integrated into our business strategy. In order to do this more effectively, the scope of the analysis should be as wide and comprehensive as possible.

Whilst working to improve coverage we are also developing an approach to embed insights from scenario analysis within wider strategic investment decision-making. Over time this will improve our resilience to the effects of physical and transitional climate risk.

Equities and debt securities climate change model results

Under all 3 scenarios, equity valuations fell to varying degrees over time. Equities are most severely hit in the 2°C scenarios with the timing of the shock immediate in an orderly transition and delayed to c.2030-2035 in a disorderly transition.

In contrast, under the 4°C scenario equities perform relatively well. Without the need to adapt and transition impacts are limited to those companies which are most exposed to physical risk.

In a similar way to equity valuations, the model predicted a fall in the value of corporate debt securities across the three scenarios, with severity and timing depending on the scenario in question. However the impacts are less severe than those modelled for equities.

For both equities and corporate debt securities the 4°C scenario results in the least impact on valuations. This is because we have concentrated on modelling first order impacts on companies, (e.g. carbon prices) and not necessarily modelled potential second order impacts (such as demand factors driven from GDP changes). This model is also limited by the 2050 timeline, after which, the effects felt as a result of physical risk may be more severe.

The shocks in value to government debt securities followed the same trend as the shocks to the corporate debt securities, however the 4°C scenario (in which physical risk plays a key impact) is more significant in respect of sovereigns.

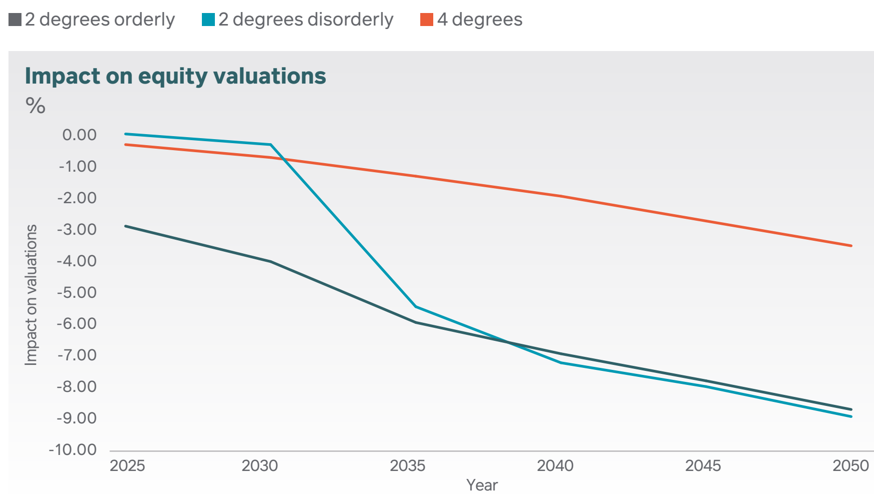
The results for our public equity and debt security investments as an asset owner form a subset of this analysis and are set out on pages 316.

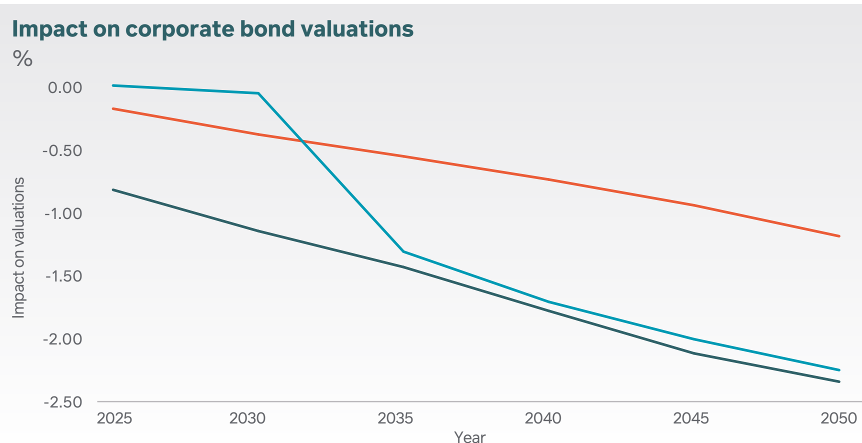
Real estate asset modelling

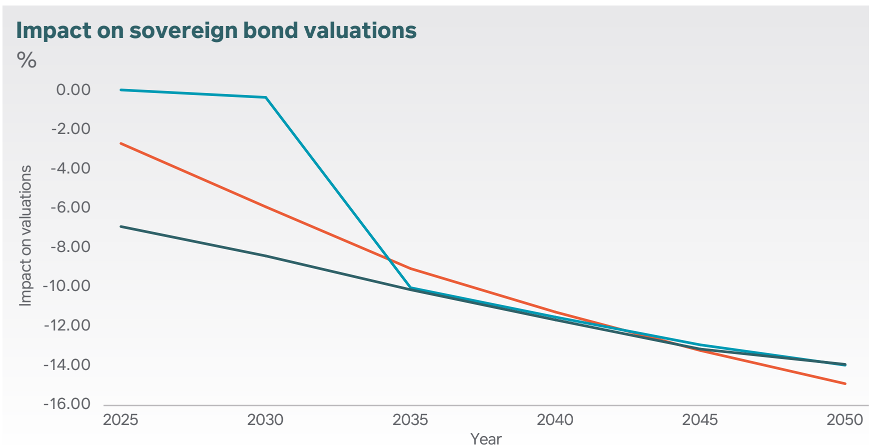
Under each scenario assets were rated low, medium or high risk (high risk being at least 1% marginal value at risk by 2100). The key conclusions of our real estate analysis are as follows:

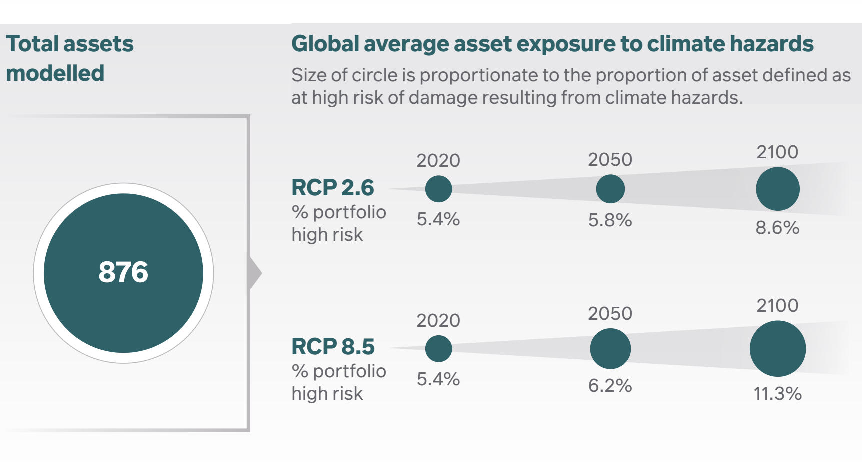
- Under an orderly 2°C scenario (RCP 2.6) between 5.8% and 8.6% of assets will be rated high risk by 2050 and 2100 respectively.
- Under a 4°C scenario (RCP 8.5) these percentages increase to 6.2% and 11.3%.

Further detail on our real estate analysis is set out on pages 317 to 318.









Climate stewardship and engagement

Why and how we engage

As an active investor, and stewards of our customers' assets, we have a responsibility to use our expertise to identify climate risks and opportunities, and to use our influence and our votes to press for positive change. In particular, we believe investors have an important role to play in encouraging businesses with high fossil fuel exposure to meet long-term energy and infrastructure needs in a more sustainable and responsible manner.

Engagement as an asset manager

Central to our NZIF are our own dedicated Climate Hotlist and Thermal Coal engagement programmes to encourage investee companies to adopt science based emissions targets and robust plans to achieve these.

Climate

Our climate engagement programme focuses on a target Climate Hotlist of 100 investee companies, updated every six months based on highest emissions and largest M&G-wide exposure. We have a specific engagement strategy for each company with a clear objective, key performance indicators to determine progress to delivery, and a timetable for engagement, tracked by our engagement dashboard. Overall, we expect companies to commit to reaching net zero in line with the Paris Agreement, and to provide credible targets and metrics for how they will do so, preferably evidenced by the Science Based Targets initiative (SBTi). We also specifically engage on strategy, disclosure, stranded asset risk, goals and targets to achieve decarbonisation.

If we find that investee companies are not making adequate progress on these objectives we will use our vote to hold Directors to account. As a last resort, if we feel that investees cannot or will not commit to Paris-alignment, we can divest from the company.

We also work with the Climate Action 100+ (CA100+) programme of leading institutional investors to engage collectively with major emitters. Through the course of 2021, M&G Investments continued to participate in CA100+ collective engagement groups.

We represent the over 600 investor members of CA100+ in engagement with various investee companies, covering industries such as mining and manufacturing, and are active members of working groups on two multinational energy companies, and a large chemicals company.

The groups have continued to concentrate on the updated CA100+ Benchmark, and to keep pressure on the companies' disclosure weaknesses. In addition, we sit on the IIGCC Corporate Programme Advisory Group, which helps set future CA100+ priorities, the IIGCC Escalation Working Group and we recently joined the Net Zero Stewardship Working Group.

Coal

Our dedicated coal engagement programme is currently targeting investee companies with thermal coal exposure where it is not clear that they have a science based, time bound phase out plan. If after engagement we feel that investees cannot or will not commit to a credible phase-out plan by 2030 for OECD and EU countries, or 2040 for developing countries, they will become candidates for divestment.

Engagement as an asset owner

We view engagement with investee companies as a key method of improving corporate sustainability, including climate change policy, emissions and related disclosures, but as an asset owner we do not engage directly. Instead, we rely on the asset managers that we appoint, including our internal asset manager, M&G Investments. We currently ask our asset managers to carry out engagement on our behalf in line with our engagement priorities.

We expect the managers of our active equity strategies to engage actively on our behalf, in line with our ESG priorities, especially investing to mitigate the impact of climate change. We also expect the managers of our fixed income strategies to engage actively as well, although such opportunities will be fewer. We do not currently expect managers of our passive equity strategies and our alternative and property assets to engage actively.

We also intend to improve both the monitoring process of how our asset managers engage, as well as engagement outcomes.

Using our influence to lead change

Regulatory consultation

We actively engage in consultative processes with our regulators as they develop climate-related initiatives, both in our own right, and through investor organisations such as the Investment Association and UK Sustainable Investment and Finance Association (UKSIF). Notably in 2021 we have contributed to consultations on the FCA's new rules to extend the TCFD disclosures regime and its proposals for a new Sustainability Disclosures Requirements (SDR) regime. As a member of the Association of British Insurers' (ABI) Board subgroup on Climate Change and a core member of its climate working group, we have been instrumental in defining the ABI's Climate Change Roadmap, and led the ABI's Race to Zero roundtable with colleagues across the sector.

Leveraging investor power

Through our membership of the IIGCC, Paris Aligned Investor Initiative, and service on IIGCC working groups, we are helping form a more harmonious and considered approach to assessing asset class frameworks for 1.5°C degree alignment with respect to decarbonisation and climate solutions.

Powering Past Coal Alliance

To help accelerate the phase-out of thermal coal, M&G plc has joined a coalition of governments, businesses and organisations in the Powering Past Coal Alliance (PPCA) and has contributed to its policy brief "Financing the just transition beyond coal".

Collaboration with CDP

Improving carbon data for private assets is a priority for us, and we have worked with the global disclosure organisation the Carbon Disclosure Project (CDP) on a pilot to develop greater climate transparency for private equity and leveraged loans. We hope that this can encourage more widespread estimation of private asset emissions moving forward.

Additionally we are also collaborating with CDP on water security and holistic water transition issues, which pose global systemic risk and are closely linked to climate change. We represented an investor's perspective on this topic at COP26 in the Blue Zone Water Pavilion and at the Marrakesh Partnership Global Climate Action Water event, and our film "Water Pressures" outlining our experience as investors in South Africa is available to see on our website.

Serving our customers and clients

Helping customers and clients achieve their financial goals

Our purpose is to help people manage and grow their savings, so they can live the life they want. During 2021, we've worked on deepening our understanding of our customers' and clients' needs, and making progress in improving how we serve them.

Understanding our customers better

Research helps shape our customer strategy and informs the design of our customer propositions, journeys and communications.

For example, during 2021 we undertook a major study into customer and adviser attitudes towards ESG and sustainable investing, including how the costs of the transition to more sustainable investments should be shared. Insights from this work are already helping inform decisions about our ESG-focused fund proposition.

Another key theme has been understanding customer needs in financial advice, as we seek to grow and develop M&G Wealth. In 2021, we have explored the existing advice and education gap for customers who invest in funds directly with M&G, and sought to understand how customers might react to communications informing them to either review their investments or that their investments were under-performing. This research provided new information about our customers and their openness to advice and was used to refine communications prompting people to review the suitability of their investments.

In another research project, we have been exploring drivers to support the growth of TAP (The Advice Partnership), the self-employed, restricted advice arm of M&G Wealth: an iterative project allowing the team to build a compelling advice service for customers.

In early 2021, we also undertook a major project researching client needs and expectations across all asset management client segments globally covering institutional, global banks, insurances, platforms, consultants and wholesale markets.

The research investigated the impact of COVID-19, hybrid working, M&G plc strategy and ESG and is now being used to shape our client experience strategy.

While our dedicated customer research lab in Edinburgh was closed due to COVID-19, our MyView panels of customers and advisers have been very busy this year: helping us improve the way we communicate tactically on a wide range of topics from ESG reporting to helping people sign up for digital services. Customers have also helped us evaluate new features for our MyPru digital service, and given feedback on our new digital fact find to help us refine and improve this.

At a brand level, we currently have seven ongoing tracking studies monitoring our brand relationship with customers and advisors in different markets, and also monitoring the performance of journey types and touchpoints to identify areas where we can improve.

Putting client service at the heart of asset management growth

One of our key goals is to achieve sustainable growth in our asset management business, through the strategic pillars of expanding institutional, particularly in private assets; growing our international business; and stabilising the UK.

To achieve this, we need to remain at the forefront of client service. From our research at the start of 2021, we learned that clients value the quality and professionalism of our investment and client facing teams and the client service we provide, but we had more to do in technology and ESG.

Since then, we've taken significant steps on extending our ESG ambitions and capabilities, set out in our Sustainability Plan update on pages 40-43. We're also building a new scalable technology-enabled, distribution platform, marketing, and end-to-end service model to ensure that as we grow our business internationally, clients in all jurisdictions receive world class service.

Also essential to our growth plans is our ability to develop innovative products which meet our clients' evolving needs, drawing on our broad and deep expertise across different asset classes. 2021 saw the launch of nine new institutional strategies, including the M&G Sustainable Loan Fund, offering exposure to loans of private companies demonstrating strong ESG credentials and co-seeded by the With-Profits Fund and the Swedish government employees pension scheme.

Among new strategies for 2022, we will be launching the M&G European Enhanced Value Fund, a deal-led, closed-end fund which combines the expertise of M&G's Real Estate, Restructuring and Debt Solutions teams to unlock a wider pool of value-add real estate investment opportunities across Europe.

Engaging with customers and clients on coal

In March 2021, we announced we will phase out thermal coal from all our actively invested public investments – an ambitious and far reaching commitment which will affect over 270 M&G investment funds and mandates containing a total of £163 billion in assets under management as at 31 December 2021.

Since then, we've written to more than 203,000 direct customers and wholesale clients to explain why we're taking this step, and how this will affect their investments with us. We've also engaged with over 630 institutional clients and intermediaries to seek consent to align their mandates to this new policy on coal, with the vast majority of responses received to date supportive.

Supporting vulnerable customers

Some of our customers need extra support from us: either because of the uncertain times we are living through or because they have additional needs due to certain vulnerabilities. This year, we've made improvements to support our vulnerable customers and specifically to help customers through the difficulties that COVID-19 has presented.

These include:

- Enhancing the Serious Ill Health claim process for pension customers, to make it easier and quicker for them to claim their benefits.
- Introducing a digital document upload capability that has enabled our customers to upload key documents required without needing to leave their house to post paperwork back to us.
- Rolling out mandatory training, based on best practice research, to all colleagues to ensure the best support to customers who have urgent vulnerability needs and find themselves in a crisis situation.
- Commencing a key "high risk" journey review through the lens of our vulnerable customers to ensure we have designed the experience in the best way we can to support their needs, and where we haven't to implement appropriate improvements, which will continue into 2022.

Modernising our Heritage business

One of our goals at demerger in 2019 was to transform our Heritage business to deliver the best possible outcomes and service for our customers, and we continue to make progress towards this goal.

This year, we've helped over 180,000 additional customers register for an online account so they can benefit from the self-service and digital channel capability available.

This capability now includes secure messaging and webchat for both customers and advisers, to reduce the reliance on paper and phone. Heritage customers and their advisers also have access to more key documents online, such as the retirement options pack and policy information which cuts paperwork and postage, and reduces waiting times.

While we have made very significant progress in the modernisation of our business, the journey has not always been straightforward. The scale and complexity of the changes required and the additional impact of COVID-19 have meant that some customers experienced service delays during 2021, which we've seen reflected in the fall in our Retail and Savings net promoter score this year. We regret the inconvenience we have caused customers, and we are doing everything to remedy these issues. Among the actions we are taking are streamlining operational processes, increasing controls, and making it easier for customers to escalate urgent requirements to us, including by social media.

Improving the experience of Retail and Savings customers

As we continue to modernise our business, we're taking a three pronged customer-centric approach to the design process: listening to what our customers are saying about what they find frustrating or hard; using these insights to drive improvements to our services; and finally, building new digital capabilities and supporting our customers to get the best of them.

During 2021, we have

- Simplified our identification and verification process allowing us to fulfil customer requests much quicker.
- Increased the speed of payment for internal transfers between pension arrangements by replacing the BACS payment system for these payments.
- Improved our retirement call frameworks to make those conversations easier for customers.
- Enhanced our paperless process to allow Investment Bond customers to withdraw funds more quickly by phone, rather than submitting requests in writing.
- Made it easier for Corporate Pensions scheme managers to ensure contributions are applied correctly to each scheme member, with a new end-to-end submission process, a suite of new customer communications and improved help and how-to guides for operational teams.
- Introduced text messaging for Corporate Pensions customers to keep them informed of the progress of their claim.

One M&G

Helping customers access their pensions in ways that work for them

M&G Wealth customer service executive Shah Majidova is based at our Craigforth office in Scotland, taking calls from customers with questions about their Prudential savings.

In December she took a call from Cathleen[i], a recently retired unadvised customer considering withdrawing her pension. Shah talked Cathleen through the options open to her with the flexibility that her Prudential Retirement Account offers, as well as explaining the possible tax implications and signposting her to PensionWise and other sources of advice. Cathleen eventually decided to make a one off withdrawal of a portion of her pension savings, leaving the rest in her account to grow. Cathleen said of Shah: "You have been more than helpful: I am very impressed."

i name changed for privacy

Living up to our values and purpose

We're committed to the communities in which we operate – investing in long-term programmes that encourage social mobility, resilience and sustainability

Through our three strategic pillars; urban regeneration, economic empowerment, and skills and education, we invest in the essential needs for communities to thrive, equipping people with the tools to be financially secure and providing opportunities to prepare for the future.

We want to help create new opportunities for people of all ages and at all life stages, working towards a future where our communities are more resilient, inclusive and sustainable.

The communities we support are diverse and spread across the globe – from Stirling and Reading, to Milan, Johannesburg and Mumbai – and they face different, complex needs. We strive to ensure that while our support is strategic and corporate, it's tailored precisely to meet local needs and deliver local impact. To achieve this, we work closely with charity partners to fund and develop long-term programmes, drawing extensively on the experience and expertise of local people.

We ensure that the projects we support are sustainable, continuously improving and flexible enough to adapt to urgent and emerging needs, such as the impact of COVID-19.

Helping our communities during COVID-19

We are fully committed to supporting charities which are providing frontline services to our communities around the world.

For example, in the UK we helped young people vulnerable to digital exclusion to access technology devices and Wi-Fi connectivity, ensuring that they could continue with remote learning during the pandemic.

In India, we supported the construction of four COVID Care centres and provided oxygen concentrators that enabled vulnerable individuals to access safe shelter to isolate or quarantine, keeping families safe and preventing transmission.

Urban regeneration

Our goal is to help create an environment where everyone has the opportunity to build a secure future. Through our urban regeneration pillar, we're investing to help communities to thrive:

The Tree Council – Young Tree Champions

We're working with The Tree Council to give young people the confidence to protect and take action to help tackle the ecological crisis. This programme aims to plant trees, orchards and fruiting hedgerows in UK schools that would benefit from them most – including those with barren, concrete playgrounds.

During its first year, 149 schools took part in the programme. Each school created a Young Tree Champion club – and in total these clubs engaged 36,783 students and teachers in planting 445 trees in school grounds, embedding the programme into the curriculum and involving local communities.

One M&G

The Tree Council: Wales

Llanmartin Primary School has embedded the Young Tree Champions programme in its curriculum across all year groups.

The school has created authentic learning opportunities for their students, including a high quality outdoor teaching resource to engage students in learning across the curriculum – from food to biodiversity, world trade to local history, sustainability to literature.

"We want to give the children the responsibility and knowledge of how to look after nature around them."

Vicky Curtis, Headteacher

36,783

students were engaged in the Young Tree Champion club

One M&G

Habitat for Humanity

Following the model of repurposing existing vacant property, six renovated empty spaces in Warsaw have been turned into apartments to provide shelter and support for up to 16 people and will be used by single parents, refugees, sick and disabled people and young care leavers. The cost of renting an apartment will be less than the market rate and tenants will also be supported to learn Polish and assisted in finding a job. After one year, the aim is that people will be ready to rent an apartment on the commercial market.

Bespoke, curriculum-linked resources and activities are hosted on a new interactive Young Tree Champions website available to all schools across the UK. Registered schools benefit from free online teacher training, covering topics such as site planning, tree planting and public speaking sessions, as well as student activity plans, live in-school pupil workshops, talking-tree-trail tech kits and tree packs for their grounds.

Habitat for Humanity – Stopping Homelessness in its Tracks

We've helped to establish a coalition of the public, voluntary and private sectors to re-purpose empty commercial and office spaces to address the social housing crisis in the UK and across Europe. This partnership has completed construction programmes in London and Warsaw, and has projects commencing in Southern Poland and Scotland. Existing buildings are renovated and used to create future homes for vulnerable groups including refugees, women fleeing domestic abuse, young care leavers, and low-income families.

Economic empowerment

We know that many social and structural factors can make it very difficult to save and plan for the future. Through our economic empowerment pillar, we aim to help equip people with the tools they need to be financially secure:

Junior Achievement Europe – 10X Challenge

10X Challenge is a financial and enterprise education challenge designed to engage students across Europe. The digital platform and resources equip secondary school students with enterprise and financial capability skills. 10X Challenge also provides teachers with the resources they need to teach enterprise education and financial capability, particularly around the topic of longer-term saving and investment.

"Students can take ownership of their work and learn and develop skills to help them excel in the future." Educator

SOS Children's Villages – Empowering Families

This international programme helps young people and their families in Europe and India to realise their full potential by accessing entrepreneurship and leadership skills. The programme has been helping to address the negative effects on young people's mental health during the pandemic. We've supported these young people through digital mentorships involving M&G colleagues, distance learning activities, and apprenticeships – helping them to take the next steps in their employability journeys.

"I am proud that together with our partners we have created a safe environment for vulnerable individuals to become independent. We believe that you can do so much more working in partnership than on your own."

Magdalena Ruszkowska-Cieslak
National Director of
Habitat for Humanity Poland

"The best part about the 10X Challenge is that it gave us an opportunity to wake up and do something different other than just school and studying and prove that we can create something successful, profitable, and meaningful."

Participant, 10X Challenge

One M&G

SOS Children's Villages

Hugo is currently studying for his Master's degree at the Business School of Amiens, in France. Hugo's family situation growing up was difficult. His mother abandoned him, and his father was violent. At just 15 years old he was taken into foster care but at 18 no longer qualified for state support. This is when he first found himself at the SOS Children's Village Youth Centre, where he received the support he needed to succeed. Having successfully completed his fourth year of studies, Hugo is now in his final year before graduating.

Skills and education

Our community investment activity aims to break down barriers and create a world where everyone has the skills they need to maximise their full potential. Through our skills and education pillar, we're helping communities prepare for the future:

Age UK – Building Resilience

This programme provides a detailed, local advice and information service delivered for older, vulnerable people in need across the UK. Since launching in September 2020, we've enabled Age UK to support 2,296 older people, equipping them with the tools, skills and opportunities needed to build resilience and overcome the most challenging times, and helped 16,000 older people through calls to Age UK's National Advice Line.

The Talent Foundry – Skills for Life

Since the start of the pandemic, students have faced unprecedented disruption to their education, from cancelled exams to schools and college closures and this disruption has had a disproportionate impact on students from lower socio-economic backgrounds.

By expanding our long-standing Skills for Life Programme, we've been able to increase our support to disadvantaged young people this year.

The programme consists of interactive workshops, delivered virtually or in person, exploring students' strengths and areas of development, and how best to promote themselves when applying for jobs, university, or apprenticeships. In total we reached 2,908 students through a combination of face-to-face and virtual delivery over the last academic year.

> "Meeting SOS Children's Villages was a turning point in my life. Without them, I never would have succeeded."
>
> **Hugo**
> Student

1,948+

older people supported by Age UK since the Building Resilience programme was launched in September 2020

> "The students were really engaged with the programme. They've been coming and asking when the next session is, and they've really got something out of taking part. It's the most engaging few hours they've had this whole term. Thank you and looking forward to the next one."
>
> **Teacher**
> Inverclyde Academy

Governance

We've established an operating model for Corporate Responsibility (CR) across the business. This provides guidance and support so that each office and market can manage charitable activities within the framework of a consistent, business-wide approach.

Our CR Governance Committee includes representation from senior management and oversees community investment activity as well as agreeing strategy and spend.

Our CR strategy and performance is reviewed by the M&G plc Executive Committee quarterly and by the Board annually.

The CR team is responsible for managing all CR activities across the business: devising community investment initiatives, measuring impact and spend, and tracking performance against annual competitor benchmarking, as well as refining issues of key social importance to the business and determining where we can have the greatest social impact.

Charitable donations

We calculate our community investment spend using the Business for Societal Impact standard (B4SI). This includes cash donations to registered charitable organisations, as well as a cash equivalent for in-kind contributions.

Our total community investment spend in 2021 was £4.6 million[i], of which £3.8 million was cash. The balance included in-kind donations prepared in accordance with B4SI guidelines. This included 862 colleagues who dedicated 7,280 hours of volunteer service in their communities. Furthermore, £168,747 was donated across the business by our employees through our payroll giving scheme.

£4.6m*
total community investment spend in 2021

> "Thanks to M&G's donation we were able to organise a therapeutic group for mothers experiencing postpartum emotional difficulties and parenting skills workshops. It was extremely important to reach these parents during the pandemic and provide a safe group space to support their well-being."
>
> **Urszula Kubicka-Kraszyńska**
> Child and Family Centre Co-ordinator, The Empowering Children Foundation

One M&G

M&G's Community Fund

The Community Fund is an annual grant programme that supports local charities and projects with small donations. The Committee includes over 40 colleagues across M&G locations and since its launch in September 2019, has awarded grants to almost 200 charities globally across our markets. This includes The Empowering Children Foundation in Poland which aims to ensure that all children have a safe childhood and are treated with respect. M&G's donation supported the Child and Family Centre in Warsaw helping at risk families experiencing emotional and parenting difficulties. The centre offers counselling, therapy, psychological support, parenting skills workshops and therapy groups.

* KPMG has provided limited assurance over the total community investment spend in 2021 (as indicated by *) in accordance with "International Standard on Assurance (UK) 3000" – "Assurance Engagement other than Audits or Reviews of Historical Financial Information (ISAE (UK) 3000)", issued by the International Auditing and Assurance Standards Board. The assurance statement can be found on our website.

Shaping our response, guiding our support

While COVID-19 has necessitated new ways of working and new ways of thinking, our culture has remained a constant beacon

Navigating the pandemic

While the pandemic continued to bring fresh and disruptive challenges during 2021, it also presented opportunities, with new ways of working and new ways of thinking becoming established as the new reality.

Keeping our people safe, whether working remotely or in the office, is our top priority. So we developed and shared a set of key principles – based on colleague feedback and shaped by their wishes and needs – to explain the new approach to working at M&G.

Our ways of working principles

- Customer-centric
- Culture led
- Hybrid working
- Promote flexibility and choice
- Empower managers and teams
- Promote inclusion and well-being
- Benefit the environment

Our people need to connect and make the most of their time together, and we quickly realised that our traditional office layouts could be significantly improved to better support a new and quite different way of working. So we've made several changes, enabling greater productivity and empowering people to work in different ways compared to remote-working.

In addition, we:

- Introduced the M&G Workspace app to enable our people to prioritise their days in the office and to support team-working.
- Supported colleagues who were nervous about a return to the office after so many months at home. In the UK, we delivered over 30 informal Connect Days which enabled people to come into the office on pre-agreed day and re-familiarise themselves with their commute, see our new office layouts in action and meet up with friends and colleagues.
- Delivered briefing calls across all locations – for managers, to help them engage with their teams on the back-to-the-office strategy, and for colleagues, giving them an opportunity to ask questions about any topics that concerned them.

The well-being and security of our people is our priority and we conducted COVID–19 risk assessments in alignment with government guidelines to ensure that all our offices were COVID–19 secure.

We also asked all colleagues to complete mandatory training, including a health and safety video, ahead of any return to an office.

"Passion, entrepreneurial spirit and customer focus are key skills in my role. M&G constantly empowers me to express them to the fullest, creating an environment where everyone can contribute and succeed."

Ludovico Manfredonia
Sales Manager, M&G Italy

Strengthening our culture, listening to our colleagues

Our culture defines who we are and how we behave towards our customers, clients and colleagues. It guided us through all our activities and actions in 2021, helping us act with care, empower our people, honour our commitments and act with conviction.

By the end of February, all people had attended sessions to fully understand our Purpose, Values and Behaviours. 995 new employees joined us during 2021 and we updated our induction process to include more emphasis on how our culture sits at the centre of M&G. Our Culture Programme sponsor, Catherine Ross, was appointed to the M&G plc Executive Committee during the year, ensuring that culture will always be a key factor in executive decision-making.

We continually encourage, listen to and act on colleague feedback. Initiatives such as our annual employee opinion survey, town hall events, the colleague forum, Q&A sessions with leaders and a culture diagnostic exercise all help us take accurate readouts of how we're performing for our people. This insight has helped to shape the work of the culture programme which continues at pace.

In July, M&G plc announced a new role of a Colleague Support Adviser. This role plays a key part in advising and supporting UK colleagues through any process, formal or informal, that impacts them personally at work. If colleagues have personal concerns such as conflict with a colleague they have the opportunity to talk the situation through and receive guidance or coaching on achieving resolution.

5,587

Employees[i]
(2020: 5,961)

i Including all employees – permanent, part time and those on fixed-term contracts (as of 31 December 2021).

We know that managing people is a privilege and requires specific expertise – and we've therefore invested in our people managers, helping them to strengthen and evolve our culture. We've set out what we expect from our managers and have developed and launched a new People Manager Academy to provide state-of-the-art training and help build these skills. On-demand resources support our managers through critical moments such as recruitment, cascading information and holding effective one-to-one meetings.

Tracking our progress

Every year, our One Voice employee opinion survey tracks what our people think of life at M&G, showing us what we're getting right and where we can improve. Despite the enormous challenges of the last 12 months, we largely maintained the progress we made in the previous year.

Areas where we scored particularly well included the response rate up from 71% to 75%, the number of our people who believe they're treated with respect (91%, 10 points above the financial sector norm) and those who believe it's safe to speak up at M&G (79%, four points above the norm). This latter score, an increase of 1% point over last year, is particularly pleasing as it demonstrates the importance of our continuing focus on psychological safety. During 2021 we delivered many sessions on this topic to leaders and their teams.

This important colleague feedback has been incorporated into the ongoing culture change programme to drive tangible improvements over the coming year.

Inclusion and diversity: the bedrock of our culture

An inclusive, diverse and healthy working environment isn't just good for our people – it's good for our business too, because it enables us to attract, engage, promote and retain the talented individuals who are crucial to delivering our business strategy.

One team, One M&G

Our values form the basis of our culture and ways of working.

Care

We act with care – treating customers, clients and colleagues with the same level of respect we would expect for ourselves. We also invest with care, making choices for the long term.

Integrity

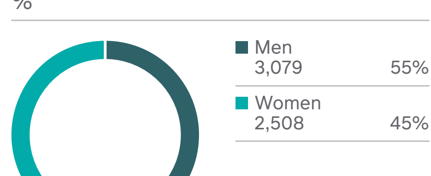
We empower our people to do the right thing, honouring our commitments to others and acting with conviction. Our business is built on trust and we don't take that lightly.

In 2021, we maintained our good progress on a number of key metrics. For example, the One Voice survey showed the inclusion index remaining steady at 83%, despite the impact of the pandemic and new working practices, following an initial rise of 11 points in 2020.

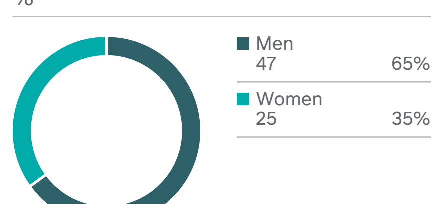
Our diversity and inclusion strategy is supported by a five-year plan and a clear governance model that spans all levels of M&G. It establishes global workstreams across gender, ethnicity/nationality, Lesbian, Gay, Bisexual and Transgender (LGBT+), disability and life stages (generations). Accountability is driven through simple yet effective impact measures including three core targets:

- 40% women and 20% ethnicity in senior leadership (Executive committee and direct reports) by 2025. The percentage of women at Executive committee and direct reports level has improved to 35% during the year compared to 30% in 2020, and the ethnic minority representation has remained comparable year-on-year at 13%.
- Year-on-year improvement in the M&G inclusion index, which was steady versus last year, as reported above.
- Positive impact on the M&G plc brand position.

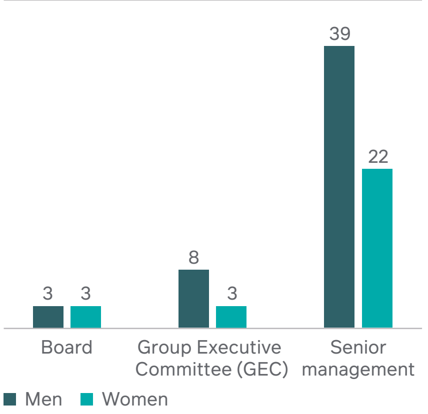
Employee gender
%



Group Executive Committee and their direct reports gender
%



Employee profile gender diversity
Number of people

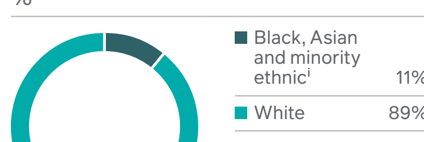


All data in graphs as of 31 December 2021.

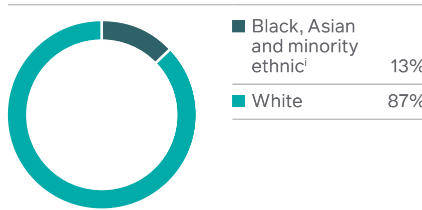
75%
Employee sustainable engagement score

35%
Female representation on the Executive Committee and their direct reports

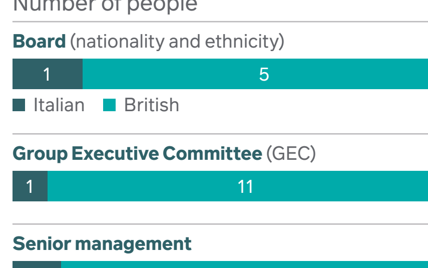
Employee ethnicity
%



Group Executive Committee and their direct reports ethnicity
%



Employee profile ethnicity diversity
Number of people



i Includes our undisclosed population.
All data in graphs as of 31 December 2021.

We continued to work hard to leverage the diversity of our talent pipeline, in support of our ethnicity target. For example, during the year we launched the Aspire programme, which aims to improve diversity and inclusion in client-focused roles.

Aspire is providing 12-month secondments in investment and client focused distribution roles. Although targeted to our Black, Asian and minority ethnic communities, Aspire programme is open to all colleagues who are eligible to work in the UK. The successful candidates comprise a cohort of 82% identifying as Black, Asian or minority ethnic and 64% women.

The programme also incorporates development opportunities, mentoring and coaching – and we'll be actively monitoring its progress with the intention of rolling it out across other areas of our business.

We continued to enhance our reporting metrics over the last year. For example, in May 2021 we published pay gap data inclusive of ethnicity for 2020 and 2021 – with the gender gap for 2021 recorded as 29.3% (2020: 30.5%), and the ethnicity gap recorded as 5.7% (2020: 9.3%).

We became the first business in our sector to publish data for gender and ethnicity across a two-year period.

Supporting our ambition to build the most inclusive culture, our colleague-led diversity networks provide invaluable support and networking opportunities for our people globally. These networks, aligned to our five global workstreams include:

- Cultural Awareness Network – aims to grow understanding of and celebrate the diverse cultural backgrounds of our people.
- Pride – fosters a safe environment where everyone who identifies as LGBT+ can feel comfortable being themselves.
- Elevate – seeks to support and promote gender balance by empowering people at all levels to achieve their true potential.
- Mind Matters – aims to increase the awareness of and provide resources for people to better manage their mental health and wellness.
- Enable – creates an environment for people of all abilities and those who care for others to be able to achieve their greatest potential.
- Future of Work – ensures we evolve working practices to meet the needs of our diverse, multi-generational and digitally-enabled workforce.

Accreditations and awards

We again gathered a pleasing set of accolades in 2021, including:

- Top100 employer in 2021 Social Mobility Employer Index.
- Awarded the National Equality Standard, recognised globally and supported by the Home Office, the CBI and the EHRC.
- Achieved Disability Confident Leader Level 3, through the Department of Work and Pensions Disability Confident Scheme.
- Achieved an overall score of 67.9% against an average of 66% in the Bloomberg Gender-Equality Index, and a disclosure score of 96.2% against an average of 94%.

Recognising the importance of health and well-being

As our people got into the rhythm of working from home, we listened closely to what they were saying – and addressed their evolving needs in the following ways:

- Supportive Technology – our new M&G Well-being and Inclusion Microsoft Teams app centralises all diversity, inclusion and well-being resources in one place.
- Frequency and Availability – Well-being Wednesdays provide weekly well-being events on topics including managing stress and anxiety, recognising the signs of burnout and addressing the impact of grief and loss. Over 2,700 colleagues registered for these events, and video content is available to all our people 24/7 via our Well-being On-Demand channel. Our Diversity Networks also integrated well-being offerings into their plans.
- Communications – the Invest in Yourself communications campaign shares colleague case studies highlighting the positive impact of our well-being resources.
- Manager support – we provided bespoke well-being training in partnership with MindGym focusing on managing stress and burnout. A clinical psychiatrist conducted workshops with leadership teams focused on stress and burnout, while we also introduced manager mental health and remote working toolkits.

Our virtual GP and cognitive behavioural therapy services continued to be available 24/7 while we also grew our Mental Health First Aider network to help meet the inevitable increase in demand caused by lockdowns. We now have over 78 trained colleagues around the world – and with the programme rolled out to India in 2020, this is a now a truly global resource for our people, wherever they're based.

“M&G has been fantastic in providing me with the understanding and flexibility that I’ve needed to care for my husband who has Multiple Sclerosis. I can still work full-time, just with flexible hours.”

Lynn Ross
Technology Risk Consultant

Supporting young people

The pandemic had a particularly heavy impact on some demographics, including young people. Our response was to partner Investment 20/20 and the Department for Work & Pensions to support the Government’s Kickstart initiative, which aims to boost youth employment opportunities. It targets 16–24 year-olds on Universal Credit who have been long-term unemployed, giving us access to a wide pool of diverse talent from varied social, economic and educational backgrounds. We achieved the aims agreed with our partners by offering three work placements. In addition, we were recognised as an early adopter and industry leader for recruiting the highest number of Kickstarters in our sector.

Our Apprenticeship Programme is designed to offer young people the chance to gain a qualification while learning on the job and earning a salary. Our 2021 apprenticeship cohort continues to contribute to our commitment to improve the overall diversity of our talent pipeline, with 55% of the group female, 35% identifying as Black, Asian or of an ethnic minority background and 30% disclosing from a social mobility perspective.

At the end of the year, RateMyApprenticeship – the UK’s leading job resource for young people – ranked us #1 in the Top 100 UK Apprenticeships Employers table in the Savings, Insurance and Investment sectors, and third in the country across all industries.

The 2020 apprentice cohort managed the stresses caused by the pandemic well and adapted smoothly to working from home. The first of these apprentices completed the programme in November with the remainder set to follow in March 2022. Our target is to offer a permanent role or extended fixed-term contract to 80% of the cohort.

Our focus on internships continued, with an eight-week virtual internship for 16 interns across our Investment and Technology teams. Diversity remains a key focus for this programme, which feeds the graduate scheme. This year, we partnered with the Leonard Cheshire Change 100 scheme, an initiative to support students with disabilities to gain work placements. We also partnered with 100 Black Interns and offered a place on our 2021 Internship Scheme to one successful candidate. Following these successes, we’ll continue to work with both organisations on future campaigns.

Towards the end of the year, we also achieved formal accreditation as a Living Wage employer. This not only commits us to ensuring that we pay the Living Wage to our own directly employed colleagues – it also commits our UK supply chain partners with contracted staff who meet the Resolution Foundation’s definition of working for M&G to pay the Living Wage.

Developing our people

The 2020 colleague survey highlighted a desire for additional support around development and career opportunities. Our response during 2021 included launching a new app that makes it easier for our people to access learning tools – from anywhere and at any time. The app includes dedicated sections on career development, manager toolkits, digital skills and building the core behavioural skills, such as communication, empathy, innovation and resilience, that we believe are essential to taking performance and careers to the next level.

Our aim is to ensure that our people have access to the right kind of learning, enabling them to continue to develop and perform at their best. Over the last 12 months, we saw the number of colleagues accessing our digital learning tools rise by 94%, with 77% of our people adding to their skills by using our digital on-demand resources at some point during the year.

Sustainability is another increasingly important area for everybody at M&G. In the year that the UK hosted the COP26 climate conference, we renewed our efforts to help our people understand what the drive towards greater sustainability means for our business and how we can all make a positive impact. For example, we launched three learning modules that were completed by all colleagues. These have covered a broad range of sustainability topics from climate change through to bringing our own 10 point sustainability plan to life, so everyone can understand and connect with our approach.

“M&G provides me the resources and opportunities to develop myself continuously, such as raising self-awareness on how I can lead with care and contribute to a respectful environment.”

Eunice Khoo
Manager, Property Research,
M&G Real Estate

Playing our part as a responsible business

As a responsible business and as part of our corporate responsibilities, we've developed new policies/standards and enhanced existing policies to reflect our continued commitments to ESG, our employees, social matters, human rights, and anti-corruption and anti-bribery

For details	Page
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ESG policies and activities over the past year	38-57
Non-financial KPIs	1
Our employees	64-67
Principal risks	72-78
Social impact	60-63

Anti-corruption and anti-bribery

We're committed to the highest levels of integrity and business conduct and have a zero tolerance approach to bribery and corruption given its adverse impact on society and undermining of economic development. We require all our employees across the globe, including firms that conduct activity on our behalf, to adhere to the M&G plc policy requirements concerning anti-bribery and anti-corruption and to carry out their duties with openness and transparency.

Periodic training and reporting requirements ensure that employees (and associated persons) are aware of their obligations under the UK Bribery Act 2010. Non-compliance could lead to criminal prosecution, fines or reprimands and/or cause significant damage to M&G plc's reputation.

Human rights

Our business is built on our core values of care and integrity:

Care – we act with care, treating our customers, clients and colleagues with the same respect we would expect ourselves and we invest with care, making choices for the long term.

Integrity – we empower our people at M&G to do the right thing, honouring our commitments to others and acting with conviction. Our business is built on trust and we don't take that lightly.

Care and integrity extend beyond our Company into the communities and societies within which we operate. A significant consideration to how we do business and make the world a little better along the way is a commitment to support and respect human rights.

Human rights concerns all of us and is core to our business interests and we believe in supporting human rights by acting responsibly and with integrity in everything we do. We are committed to working with all our suppliers and stakeholders to help end slavery, human trafficking, child labour or any other abuse of human rights.

As a global company, we operate within many countries and communities. We aim to comply with local laws and regulations in every jurisdiction where we operate and strive to uphold the principles and expectations outlined in our Statement of Human Rights.

As a responsible business and as part of our corporate responsibilities, M&G made a commitment in our 2020 Annual Report and Accounts to adopt a Modern Slavery policy/standard which defines our Group Governance Framework (GGF) position and appetite using UK legislation (Modern Slavery Act 2015) as our starting point as a minimum standard. By M&G having this in place, through annual attestation we can actively assess our approach and ensure we meet the minimum standards as stipulated by the UK Home Office, whilst ensuring we are compliant in our licence to operate in line with the Modern Slavery Act 2015.

Our M&G plc Supply Chain Modern Slavery Business Standard supports the management of Modern Slavery risk and how we approach third party supplier relationships. The standard details how M&G plc define this risk and how we mitigate this within our corporate activities, outlining our internal processes to identify potential exposure, how we effectively monitor our suppliers, escalate any known/potential exposures and actions that need to be taken to assess viability in greater detail.

Our experienced Procurement and Supplier Risk Management teams across our UK businesses have further embedded a coordinated response to the requirements of the Modern Slavery Act 2015, with a focus on our external supply chain, as follows:

- Procurement highlights within all tender activity the Group's expectations around Modern Slavery. This is undertaken regardless of the supplier statutory position (therefore suppliers under the £36 million threshold are not exempted from our requirements).
- Procurement and Supplier Risk Management determine the nature of services provided by suppliers and identify associated risks, including any potential risk exposure to Modern Slavery. Where suppliers are not seen to have appropriate standards in place, we will work in close collaboration to improve standards.
- Using validated sources including the Chartered Institute of Procurement and Supply (CIPS) and our experienced employees within this area of expertise, we undertook an exercise to review the common procurement category themes where Modern Slavery exposure is most likely to be present within the financial services industry and mapped these against our existing categories. This has enabled us to understand and visualise potential supply chain risks collaboratively whilst we look to drive wider initiatives in line with our ESG commitments to enhance audit and compliance on our high risk suppliers.
- As part of our ESG initiatives we have carried out in-depth reviews on our core suppliers to M&G plc to understand the potential inherent risk to our business and, where needed, have taken the necessary steps to improve standards. This will be embedded into our annual governance activity while we look to continue assessing those high risk suppliers, which have been identified through the category mapping exercise which will take place in 2022.
- Revisions were made to our Supplier Code of Conduct to reference ESG topics including Modern Slavery.
- We remain committed to upskilling our staff around Modern Slavery and throughout 2021 we have been working toward producing an annual training module. Employees across our Commercial, Procurement, Workplace Solutions and Supplier Managers were our initial target for this. Our Board and Senior Executives have also undertaken this early to be able to demonstrate to colleagues and wider stakeholders our commitment to combatting modern slavery and human trafficking. There are plans to make this mandatory across the wider business in 2022.
- M&G plc contracts remain refreshed and updated for Modern Slavery provisions.
- We recognise our responsibility to comply with all relevant legislation included within the Modern Slavery Act 2015. Our Modern Slavery Act Transparency Statement (to be published in May 2022), confirms how we comply with all relevant legislation and the steps we've taken to assess and mitigate against the risk of Modern Slavery and Human Rights violations within our business and supply chains, as well as how we've managed and will continue to proactively monitor those risks.

Adherence to policies

Narrative within our Non-Financial Reporting Statement covers the following policies/standards and developments across 2021

- Bribery, Corruption and Tax Evasion Risk Policy.
- Statement of Human Rights.
- Supply Chain Modern Slavery Business Standards.

Some of these policies have only recently been implemented and will be reviewed during 2022, others are more embedded into our business.

M&G plc has zero tolerance to bribery, supported by its Group Financial Crime Compliance Policy and Business Standards. The resulting framework enables our employees to act lawfully with high degrees of integrity in all our business dealings. Alongside this we will be looking to embed the new Supply Chain Modern Slavery Business Standard and enhanced processes into the business. This will allow us to actively assess our position to these risks and how we mitigate them within our business and supply chain, to support our continued commitment to working with our suppliers and stakeholders to help end slavery, human trafficking, child labour or any other abuse of human rights.

> "We are committed to working with all our suppliers and stakeholders to help end slavery, human trafficking, child labour or any other abuse of human rights."
>
> **Emma-Grace Brien**
> Supplier Risk Management Specialist

Our framework

Our risk management framework allows us to deliver for our customers, clients and shareholders whilst managing risk within agreed appetite levels

2021 continued to highlight the importance of effective risk management to the success of companies as we have had to navigate a sustained challenging financial and operational environment significantly impacted by a global pandemic.

Upon my joining as CRO in January 2021 we reviewed the Risk Framework and Risk function to ensure that both are fit for purpose and positioned well for the future.

This review identified no fundamental issues and showed a number of strengths and recent positive enhancements in our approach to risk management as well as opportunities to embed a further step change in risk understanding, awareness and accountability across the organisation.

In October 2021 we combined the Risk and Compliance functions to create a single second line function which will drive an integrated and consistent second line approach and enhance the value we bring to the Company. These enhancements will ensure a more mature three lines of defence model underpinned by a stronger risk culture.

Peter Grewal
Chief Risk and Compliance Officer

Risk framework

As part of our business operations, we take on risks on behalf of our shareholders, customers and clients.

We generate shareholder value by selectively taking exposure to risks where such risks are adequately rewarded, and can be appropriately quantified and managed to safeguard our ability to meet commitments to customers and clients, comply with regulations and protect our reputation.

The Board has ultimate responsibility for these risks across M&G plc. To assist the Board in discharging its responsibilities, we have a comprehensive approach to identifying, measuring, managing, monitoring and reporting current and emerging risks (the Risk Management Cycle), supported by an embedded risk culture and strong risk governance. This is set out in the Group Risk Management Framework, key elements of which are described below.

Our Risk Management Framework is designed to manage risk within agreed appetite levels which are aligned to delivering our strategy for customers, clients and shareholders.

Risk culture

The Board is responsible for instilling an appropriate corporate risk culture within the Group. Working together with our senior management, the Board promotes a responsible culture of risk management by emphasising and embedding the importance of balancing risk with profitability and growth in decision-making, while also ensuring compliance with regulatory requirements and internal policies.

Our approach to risk culture is centred around the organisation-wide programme of "I Am Managing Risk", which requires colleagues to take personal responsibility and accountability for identifying, assessing, managing and reporting risk and working together to do the right thing for our customers and clients, our other stakeholders and our business.

To help embed our risk culture, the Board sets and approves:

- Risk appetite and associated risk mandates and limits, determining how these are then delegated or cascaded to our businesses and/or individuals to execute.
- The Risk Management Framework and supporting risk policies.
- Assignment of responsibilities for controls and reporting.

> "Our risk management is supported by strong governance, an embedded risk culture and independent monitoring and oversight"
>
> **Peter Grewal**
> Chief Risk and Compliance Officer

Governance

The Risk Committee supports the Board in these activities providing leadership, direction and oversight, and the Audit Committee assists the Board in meeting its responsibilities for the integrity of our financial reporting, including obligations for the effectiveness of our internal control and risk management systems. The Remuneration Committee ensures that compensation structures place appropriate weight on all individuals adopting the required risk culture and behaviours.

The system of internal control, including risk management, which supports the Board and Risk and Audit Committees is based on the principles of "Three Lines of Defence": 1) risk identification and management, 2) risk oversight, advice and challenge, and 3) independent assurance (see below).

Board of Directors

Risk and Audit Committees

Three lines of defence

1 Risk identification and management

- Identify, own, manage and report risks
- Execute business plan and strategy
- Establish and maintain controls
- Stress/scenario modelling
- Operate within systems and controls
- Ongoing self-assessment of control environment effectiveness

2 Oversight, advice and challenge

- Oversight, advice and challenge
- Owner of Risk and Compliance Framework
- Stress/scenario setting and oversight
- Regulatory liaison
- Proactive and reactive advice and guidance
- Risk and compliance monitoring and assurance activities
- Risk and compliance reporting

3 Assurance

- Independent assurance of first line of defence and second line of defence
- Independent thematic reviews and risk and controls assessment

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

Risk appetite and limits

We specify our risk appetite and tolerance to take on risk through risk appetite statements and limits that are aligned to, and reviewed with respect to, our business model and strategy. Risk appetite is the amount and type of risk we are willing to accept in pursuit of our business objectives.

We have established aggregate risk appetite statements and limits for capital, liquidity and dividend volatility. The capital risk appetite is supported by a solvency intervention ladder which sets out management actions for implementation or consideration at different levels of regulatory solvency.

Our expected ability to stay within appetite is assessed during the annual business planning process, with the actual position monitored and managed regularly throughout the year.

We also have risk appetite statements and accompanying individual risk thresholds in place for significant financial and non-financial risks, including a comprehensive Group Approved Limits Framework and Non-Financial Risk Appetite Statement. In combination, the individual appetite statements and limits are set such that we operate in line with the aggregate approved risk appetite statements even when the individual limits are fully used.

We use prescribed indicators to inform whether a risk may move out of appetite and, together with limit utilisation, this is a core element of risk reporting to Board and Executive Risk Committees with appropriate management actions.

COVID-19 pandemic

The pandemic has continued to impact the Group across our risk profile as detailed in the principal risks on the following pages.

In spite of the successful vaccine roll-out in many developed countries, COVID-19 continues to be a risk to market values, interest rates, credit spreads, dividend levels, rental income and defaults, all of which could adversely impact investment performance across our funds. In addition, due to unusually accommodative monetary policies implemented by central banks globally, there is a risk of market volatility as and when these are unwound. In the course of this process, sentiment in the financial markets may also be impacted by rising inflation expectations, with subsequent negative impacts on the value of some asset classes.

Higher levels of hybrid working have contributed to an increased digital footprint and potential susceptibility to technology disruption and data loss through cyber-attacks. Our security control environment has matured during 2021 as a result of continued focus through a dedicated multi-year programme. The programme strengthens our cyber posture by delivering sustainable controls across key areas.

One of the most visible impacts of COVID-19 has been the acceleration of digital transformation and digital adoption in the general population. We expect to continue to undertake significant change to achieve our strategic priorities particularly in respect of our target operating model, process and digital transformation, new product offerings and ESG.

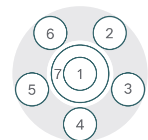
We have implemented a cautious and structured approach to the "Return to Office" for UK colleagues, following the reopening of all UK offices in October 2021. We are doing this in line with the latest government guidance and with consideration of individuals' preferences and safety concerns, whilst ensuring that a sense of community and organisational synergies are maintained. As we have done throughout the pandemic, we continue to put the safety and well-being of our colleagues at the forefront of our response.

Principal risks and uncertainties

1 Business environment and market forces

Principal risk	Management and mitigation	Outlook	Strategic priorities	Change from last year
Changing customer preferences and economic and political conditions could adversely impact our ability to deliver our strategy and have implications for the profitability of our business model. **The markets in which we operate are highly competitive while customer needs and expectations are changing rapidly. Economic factors, including those resulting from the COVID-19 pandemic, may impact the demand for our products and our ability to generate an appropriate return. In addition, increased geopolitical risks and conflicts, and policy uncertainty, may impact our products, investments and operating model.** **Our key savings proposition, PruFund, accounts for a significant proportion of our total sales and we are also significantly reliant on the intermediated channel for sales of savings solutions. This heightens our exposure to changing economic conditions and customer preferences.** **Our success depends upon our capacity to anticipate and respond appropriately to such external influences.**	We conduct an annual strategic planning process, which is subject to oversight by the Risk function and the Board, and results in an approved strategy. The process considers the potential impact of the wider business environment and, throughout the year, we monitor and report on the delivery of the plan. We continue to diversify our savings and investments business to respond to developing customer needs in terms of products, distribution and servicing. We are also implementing a significant digital transformation programme to deliver a more diversified distribution strategy. We have expanded our operations in Europe to ensure that we can continue to grow and service our European customer base following the UK's departure from the European Union.	In spite of the successful vaccine roll-out in many developed countries (and to a lesser extent in developing countries), COVID-19 and its economic impact continues to be a risk to investment performance across our funds. These headwinds could impact solvency and reduce the value of AUM and therefore fee income. Additionally, we believe competition across all market segments will intensify in response to consumer demand, technological advances, the need for economies of scale, regulatory actions and new market entrants. We have launched a number of new products and work is ongoing to develop new propositions and expand our institutional and international businesses. The conflict in Ukraine has potential to impact our risk profile including but not limited to: adverse and volatile economic and market conditions; impacts on investment performance and underlying assets; increased cyber risk; and regulatory risk from sanctions. The uncertainty around these impacts requires us to continually monitor and assess developments. We have responded to events by mobilising resources and standing up incident response protocols. This includes bringing together colleagues from across the business to provide an enhanced monitoring and decision-making capability. These protocols allow us to effectively manage risks for our stakeholders and respond to potential adverse impacts in a timely manner.	2 3 4 5 6	Neutral

Our strategic priorities



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7. Active Capital Management and Operational Efficiency

2 Sustainability and ESG

Principal risk	Management and mitigation	Outlook	Strategic priorities	Change from last year
Our stakeholders increasingly expect that we meet the needs of the present without compromising the ability of future generations to meet their own needs. In addition we recognise that sustainability, including issues concerning the climate, diversity and inclusion, corporate governance and biodiversity, is crucial to our success and that of the companies in which we invest. **A failure to address and embed sustainability within our products, business and operating model could adversely impact our profitability, reputation and plans for growth.**	Sustainability risks are identified, assessed and managed under the M&G plc ESG Risk Management Framework and Policy, which was developed in 2021 and is currently being embedded. Consideration of ESG Risk is built into the decision-making processes and a requirement of key strategic board risk assessment papers. Climate change risk is being integrated into our scenario analysis process with both top down and bottom up consideration over a range of time horizons leveraging the Bank of England's 2021 Climate Biennial Exploratory exercise.	Following COP26, governments have committed to take action to reduce emissions in the coming years, with further more ambitious action needed to meet the goal of restricting end Century temperature increases to well below 2C. We have made specific firm-wide public commitments in respect of Sustainability issues and we continue to embed sustainability and ESG principles within our products (e.g. launch of PruFund Planet), business and operating model to ensure that we meet the expectations of a wide range of stakeholder groups.	1 2 3 4 5 6	Increased

3 Investment performance and risk

Principal risk	Management and mitigation	Outlook	Strategic priorities	Change from last year
The investment objectives and risk profiles of our funds and segregated mandates are agreed with our customers and clients. A failure to deliver against these objectives (including sustained underperformance of funds), to maintain risk profiles that are consistent with our customers and clients expectations, or to ensure that fund liquidity profiles are appropriate for expected redemptions may all lead to poor customer outcomes and result in fund outflows. If these risks materialise for our larger funds or a range of funds, our profitability, reputation and plans for growth may be impacted.	Our fund managers are accountable for the performance of the funds they manage and the management of the risks to the funds. An independent Investment Risk and Performance team monitors and oversees fund performance, liquidity and risks, reporting to the Chief Risk and Compliance Officer. Such activities feed into established oversight and escalation forums to identify, measure and oversee investment performance, investment risk and fund liquidity risks.	The impact of the COVID-19 pandemic on economies may continue to cause sharp movements in market values, interest rates, dividend levels, rental income and defaults, all of which could adversely impact investment performance and fund flows. While market volatility persists and customer confidence remains low, there is a risk of a deterioration of fund flows. Ensuring that our customers understand the risks to which they are exposed, including liquidity risk, and delivering strong fund performance will be key to our success.	2 3 4 5 6 7	Neutral

4 Credit

Principal risk	Management and mitigation	Outlook	Strategic priorities	Change from last year
We are exposed to the risk that a party to a financial instrument, banking transaction or reinsurance contract causes a financial loss to us by failing to discharge an obligation. In the case of invested assets this relates to the risk of an issuer being unable to meet their obligations, while for trading or banking activities this relates to the risk that the counterparty to any contract the business enters into is unable to meet their obligations. Our solvency is also exposed to changes in the value of invested credit assets arising from credit spread widening and/or credit rating downgrades.	Our Credit Risk Framework sets standards for the assessment, measurement and management of credit risk, which are monitored by a dedicated, independent team. We set and regularly review limits for individual counterparties, issuers and ratings, and monitor exposures against these limits. Our policy is to undertake transactions with counterparties and invest in instruments of high quality. We have collateral arrangements in place for derivative, secured lending, reverse repurchase and reinsurance transactions.	Our credit risk exposure is expected to reduce over time as our annuity business runs off. In the near term, there remains a risk of deterioration in credit conditions as a result of the ongoing market effects of the COVID-19 pandemic. Through our annuity portfolios in particular, we are exposed to excess downgrades and defaults, and to credit spread widening. However, trading over the last decade has led to a significant increase in the proportion of secured assets and a defensive and diversified credit portfolio.	7	Decreased

5 Market

Principal risk	Management and mitigation	Outlook	Strategic priorities	Change from last year
Our profitability and solvency are sensitive to market fluctuations. Significant changes in the level or volatility of prices in equity, property or bond markets could have material adverse effects on our revenues and returns from our savings and investment management businesses, while exchange rate movements could impact fee and investment income denominated in foreign currencies. Furthermore, material falls in interest rates may increase the amount that we need to set aside in order to be able to meet our future obligations.	Market risk appetite is set and monitored to limit our exposure to key market risks, and we have prescribed limits on the seed capital provided for new funds. Where appropriate, and subject to risk limits and procedures, we use derivatives for risk reduction, for example, to hedge equities, interest rates and currency risks, and we carry out regular reviews of hedging and investment strategies, including asset-liability matching, informed by stress testing. We have procedures in place to respond to significant market events and disruptions, bringing together colleagues from across the business to provide an enhanced monitoring and decision-making capability.	Our market risk exposure is expected to decrease given the majority of new products being sold contain minimal exposure to financial risks. Due to unusually accommodative monetary policies implemented by central banks globally, there is a risk of market volatility as and when these are unwound, in particular if this is carried out in an un-coordinated manner. In the course of this process, sentiment in the financial markets may also be impacted by potential rising inflation expectations, with subsequent negative impacts on the value of some asset classes, in particular fixed income securities.	6 7	Decreased

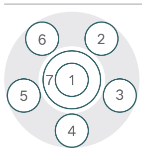
6 Corporate liquidity

Principal risk	Management and mitigation	Outlook	Strategic priorities	Change from last year
We must carefully manage the risk that we have insufficient cash resources to meet our obligations to policyholders and creditors as they fall due. This includes ensuring each part of our business and M&G plc as a whole has sufficient resources to cover outgoing cash flows, under a range of severe but plausible scenarios.	Risk appetite is set such that we maintain adequate liquid resources and our liquidity position is regularly monitored and stressed. We have detailed liquidity contingency funding plans in place to manage a liquidity crisis. Liquidity, cash and collateral is managed for the Group by Prudential Capital, which holds liquid, high grade assets and has access to external funding.	We expect the nature of our exposure to liquidity risk, and our approach to managing the risk, will remain materially unchanged in the short term.	2, 3, 4, 5, 6, 7	Neutral

7 Longevity

Principal risk	Management and mitigation	Outlook	Strategic priorities	Change from last year
We make assumptions regarding the life expectancy (longevity) of our customers when determining the amount that should be set aside to pay future benefits and expenses. Unexpected changes in the life expectancy of our customers could have a material adverse impact on both profitability and solvency. This risk mainly arises from our large annuity book and, although we no longer write new annuity business in the open market, the size of the back-book remains significant.	We conduct annual reviews of longevity assumptions, supported by detailed assessments of actual mortality experience and have a team of specialists undertaking longevity research. We perform regular stress and scenario testing to understand the size of the longevity risk exposure. We have undertaken longevity risk transfer transactions, where attractive financial terms are available from suitable market participants.	The pace of longevity improvements among the annuitant population has slowed in recent years. Additionally, as our closed non-profit annuity book runs-off our longevity exposure is expected to reduce over the longer term.	6, 7	Neutral

Our strategic priorities



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8 Operational

Principal risk	Management and mitigation	Outlook	Strategic priorities	Change from last year
A material failure in the processes and controls supporting our activities, that of our third party suppliers or of our technology could result in poor customer outcomes, reputational damage, increased costs and regulatory censure. We have a high dependency on technology and the loss or sustained unavailability of key hardware or software, inadequate information security arrangements and ineffective use of digital solutions could impact our ability to operate effectively. Additionally, serious failings in the delivery and/or persistent under performance of third party supplier arrangements could impact the delivery of services to our customers.	Our Operational Risk Framework defines our approach to the identification, assessment, management and reporting of operational risks and associated controls across the business including IT, data and outsourcing arrangements. Our security control environment has matured as a result of continued focus from the Technology leadership team and the multi-year Strategic Secure Programme continues to strengthen the cyber posture. We have enhanced our oversight and risk management of third parties across M&G plc, including our approach to selection, contracting and onboarding, management and monitoring, and termination and exiting.	Exposure to technology risk remains material, driven by our digital footprint, higher levels of hybrid working and the evolving external cyber-threat landscape. Our strategic technology programmes will continue to enhance our control environment through 2022. Our dependency on third parties for critical activities such as customer engagement, investment management, fund administration is reflected in our ongoing focus on managing third party risks. Our enhanced approach is designed to provide a scalable and sustainable oversight model.		Decreased

9 Change

Principal risk	Management and mitigation	Outlook	Strategic priorities	Change from last year
We have a number of significant change and transformation programmes underway to deliver our strategy for growth, key financial and non-financial benefits (including cost savings, improved customer experiences, greater resilience and strengthening our control environment) and regulatory change. Failure to deliver these programmes within timelines, scope and cost may impact our business model and ability to deliver against our business plan and strategy.	Project governance is in place (including oversight) with reporting and escalation of risks to management and the Board. Our Strategic Investment Board is responsible for prioritisation decisions, ensuring that the activities that maximise our ability to achieve the business plan, key regulatory items and growth activity are delivered and funded appropriately. We employ a suite of metrics to monitor and report on the delivery, costs and benefits of our transformation programmes. We conduct regular deep-dive assessments of transformation programmes, individually and collectively.	One of the most visible impacts of COVID-19 has been the rapid acceleration of digital transformation and digital adoption in the general population. We remain committed to our extensive change programme which underpins our strategy for growth, meet appropriate cost base targets, deliver a number of key non-financial benefits (including improved customer experiences and outcomes, digital transformation and strengthened resilience), and meet regulatory requirements. Our exposure to change risk will therefore remain material.		Neutral

10 People

Principal risk	Management and mitigation	Outlook	Strategic priorities	Change from last year
The success of our operations is highly dependent on our ability to attract, retain and develop highly qualified professional people with the right mix of skills and behaviours to support our business strategy and culture. **As a large and listed public company, and as we continue to implement our change programme, our people risk and associated reputational impact is heightened in a number of areas including our pay practices, staff workloads and morale, the conduct of individuals or groups of individuals and industrial relations (our own and that of key third party providers).**	Our HR Framework includes policies and standards for Diversity and Inclusion, Employee Relations, Remuneration, Talent, Resourcing, Performance and Learning. The framework is designed to align staff objectives and remuneration to our business strategy and culture. Our management and Board receive regular reporting on people issues and developments, for example, the succession plans for critical talent, the management of industrial relations, pay, culture and diversity. We conduct regular surveys to better understand colleagues' views on our business and culture, the findings of which drive actions to improve the experience of our staff.	With the reduction of COVID-19 related restrictions in the UK, a cautious and structured approach to the "Return to Office" for UK colleagues, following the reopening of all UK offices in October 2021, is being implemented with consideration of individuals' preferences and safety concerns, whilst ensuring that a sense of community and organisational synergies are maintained. Competition for top talent is expected to remain intense. We continue to increase our investment in leadership and manager development in order to be successful and drive the right culture, behaviour and norms in today's fast changing world.	1 2 3 4 5 6 7	Neutral

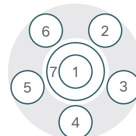
11 Regulatory compliance

Principal risk	Management and mitigation	Outlook	Strategic priorities	Change from last year
We operate in highly regulated markets and interact with a number of regulators across the globe, in an environment where the nature and focus of regulation and laws remain fluid. There are currently a large number of national and international regulatory initiatives in progress, with a continuing focus on solvency and capital standards, financial crime, conduct of business and systemic risks. The consequences of non-compliance can be wide ranging and include customer detriment, reputational damage, fines and restrictions on operations or products.	Accountability for compliance with regulatory and legal requirements sits with our senior management. Our Compliance function supports our businesses by providing guidance to, and oversight of, the business in relation to regulatory compliance and conflicts of interest, and carries out routine monitoring and deep-dive activities to assess compliance with regulations and legislation. A dedicated Group Financial Crime Compliance function is leading the implementation of a strengthened financial crime compliance framework across M&G plc. In 2021, we increased our capabilities and introduced new systems in line with our target operating model and ongoing transformation programme. National and global regulatory developments are monitored and form part of our engagement with government policy teams and regulators, which includes updates on our responses to the changes.	As we continue to expand our international presence and deliver our business transformation, there is an increased dependency on having good working relationships across regulators. The Financial Crime programme continues to progress, and is entering a key phase in the implementation of the operating model and enhancing tools to comprehensively scan and monitor activity. Regulators have an increased focus on governance, senior management, conflicts of interest, culture, fair outcomes for customers, risk management and the control environment.	1 2 3 4 5 6 7	Neutral

12 Reputational

Principal risk	Management and mitigation	Outlook	Strategic priorities	Change from last year
Our reputation is the sum of our stakeholders' perceptions, which are shaped by the nature of their expectations and our ability to meet them. Consequently, there is a risk that through our activities, behaviours or communications, we fail to meet stakeholder expectations in ways which adversely impact trust and reputation. Failure to effectively manage reputational risk could therefore have an adverse impact on our revenues and cost base, our ability to attract and retain the best staff and could also result in regulatory intervention or action.	Our Reputational Risk Management Framework and dedicated Reputational Risk team monitor and report on reputational risks utilising a suite of metrics to monitor stakeholder groups. We have embedded reputational risk champions within our business and they perform an active role in identifying and monitoring key reputational risks and drivers. The reputational risk champions also support our businesses in creating processes that include full consideration of reputational risks in key decisions.	We still have a relatively new corporate identity, and, as such, we are subject to significant scrutiny over our strategy, commitments and disclosures. Whilst driving our sustainability agenda remains a priority, the ongoing management of other key stakeholders remains key. Additionally, the socio-political climate, together with an increase in activities being undertaken by the business, means that we could face an increasing range and severity of reputational events. The effective management of all stakeholder groups will be necessary for the successful delivery of our strategy and for the ongoing sustainability of the business.	7	Neutral

Our strategic priorities



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Sustainability and ESG risk management

Sustainability is crucial to our success and that of the companies in which we invest. A failure to address and embed sustainability considerations within our products, business and operating model could adversely impact on our financial performance, reputation and plans for future growth. Consequently we consider sustainability a "principal risk" which means that we recognise the considerable threats and the potential benefits that sustainability risk could have on our business and that of the companies that we invest in.

Our stakeholders increasingly expect us to consider and act on a broad range of sustainability issues, including those concerning the climate, diversity and inclusion and corporate governance. Therefore we consider these broad range of issues through an environmental, social and governance (ESG) lens to identify, assess and manage the risks, enabling us and others to benchmark our success.

We currently consider ESG risk from three broad dimensions:

1. **Inside out** – arising from how our business impacts on the planet and society, as we seek to create and drive value for our stakeholders, from customers to shareholders.
2. **Outside in** – arising from the impact of ESG factors on our organisation, ensuring that any "real time" response aligns to our positioning on ESG.
3. **Reputation** – Our ability to meet a range of key stakeholder expectations on sustainability and ESG issues, whilst reinforcing our brand values of care and integrity.

Our ESG risk management approach

The identification, assessment and management of ESG risk is conducted in line with the M&G plc Risk Management Framework, with risk governance based on the "Three lines of Defence" (3LoD) model.

Recognising the complex range of risks that sit under ESG, we have developed a specific ESG risk management framework to further enhance our approach to the identification, assessment and management of ESG risks. The framework, which has been approved by the Risk Committee, is intended to help inform, educate and communicate the importance of ESG risk across the business and consists of five core components: ESG risk culture, identifying and assessing ESG risk, managing and reporting effectively on ESG risk, embedding risk governance and protecting reputation.

The framework is supported by an ESG risk policy, which articulates our ESG risk appetite and sets out key requirements, applicable to all business areas, for the management of ESG risk in a manner consistent with our risk appetite.

ESG risks are escalated within risk reporting, which is provided to Board and Executive Risk Committees, with further escalation to the relevant Boards as required.

ESG Risk Management Framework

ESG risk culture
Through engagement, training and collaboration, build a culture of awareness and understanding of ESG Risk to underpin an effective three lines of defence, in line with our commitments and in accordance with our core principles

Identify and assess ESG risk
Identify potential ESG risks and impacts, considering both the contribution the business makes to ESG ("inside out") and the impact of external ESG events on the business ("outside in")

Manage and report effectively on ESG risk
Ensure effective risk controls, policy and practices are in place to mitigate and minimise ESG risks, and provide oversight of progress made against key objectives and flag any barriers to success

Embed risk governance
Create a robust decision-making and escalation environment on ESG risk issues, demonstrating prudent and effective controls to facilitate effective entrepreneurial leadership

Protect reputation
Integrate the Reputational Risk Framework across M&G's legal entities and differing business environments and territories and our values of "care and integrity"

Climate change risk

The Task Force on Climate-related Disclosures (TCFD) requires that businesses disclose clear, comparable and consistent information about the risks and opportunities presented by climate change. It recognises the severity of climate risk and challenges misconceptions about the nature and timeframe of the impact of climate change. We take a holistic view of climate change risks across transition, physical and liability risks and across a range of timeframes (Short-Term (ST): < 3 years; Medium-Term (MT): 3-10 years; Long-Term (LT): 10+ years).

The main categories of these risks are illustrated in the tables below and are applicable across our different legal entities and business areas.

Climate-related risks

Risk Driver	Impact Identified	Horizon
Key Physical Risks Identified		
Acute	The increasing frequency and severity of extreme weather events (for example heatwaves, droughts, and floods), could result in: – Damage and disruption to our own operations and those of our critical suppliers. – Damage and disruption to the operations and assets of the companies we invest in, impacting asset values. – Damage and disruption to the properties we invest in, impacting the value of those properties. – Impacts to our actuarial liabilities from changes to mortality, expenses and (indirectly) lapse behaviours.	MT/LT
Chronic	Longer-term shifts in climate patterns (for example, increased average temperatures, sea level rise and higher precipitation) could have wide ranging impacts on living and working conditions and human health. This would result in implications for economic growth, monetary policy and lifestyle choices which have the potential to impact the value of the assets that we hold and the value of our actuarial liabilities (through impacts to mortality rates, expense levels and lapse behaviours). Such changes are likely to vary across geographies and may also have implications for the propensity to save, impacting new business volumes.	MT/LT
Key Liability Risks Identified		
Liability/Litigation	– Failure to appropriately identify, respond to and disclose the risks arising from climate change and the impact they may have on shareholders, customers and clients leading to litigation of the firm and/or Directors. – Failure to comply with climate regulations could lead to fines or other regulatory sanctions (for example Capital add-ons).	ST/MT/LT
Policy and Regulation	Policy actions around climate change could have significant impacts on both M&G and the companies that we invest in. For example: – Carbon-pricing mechanisms increase the costs incurred by high carbon emitters, potentially negatively impacting financial performance unless steps are taken to reduce emissions. – Increased disclosure requirements in relation to climate risks, with non-compliance potentially resulting in fines, regulatory sanctions and challenges from investors and other stakeholders. – Policy could also impact tax revenues, provision of health and social care and propensity to save. – Impacts are also likely to vary across industrial sectors and geographies.	ST/MT/LT
Technology	Technological improvements or innovations that support a transition to a lower-carbon economy could have a significant impact on M&G and the companies that we invest in. For example: – Technology advances could affect the competitiveness, production and distribution costs and ultimately demand for certain organisations goods and services (for example the switch to renewable energy). – M&G and its customers and clients could benefit from or miss out on investments in innovative solutions that reduce, minimise or mitigate the impacts of climate change. – Organisations may have to dedicate time and resource to decommission legacy systems.	ST/MT

Key Liability Risks Identified continued		
Risk Driver	Impact Identified	Horizon
Market	Change/fluctuations in the demand for M&G propositions and the value of the companies that M&G invests for example due to: – Demand shifts as stakeholders become more climate aware and place greater scrutiny on company climate impact and plans, or from knock-on impacts from changes to taxes, health and social care funding or policy incentives to save. – Changes in revenue mix and sources resulting in decreased revenues: (e.g. shift in revenue from oil supply to gas supply for companies in the Oil and Gas sector). – Fire sales or liquidity issues in carbon intensive assets driven by, for example, a lack of consistent and reliable information on climate exposures. – The price for energy as a result of the greening of the energy sector. – Impacts to Company credit standings resulting in lending limitation and failed repayments.	ST/MT/LT
Reputation	Risk arising from the failure to meet targets and commitments made to stakeholders within timeframes required by regulation or committed by management.	ST/MT

Climate change risk management as a business

The identification, assessment and management of climate-related risks, along with other ESG-related risks, is integrated into the M&G plc ESG Risk Management Framework. As climate change is one of our sustainability thematic priorities it is a key area of oversight for second line Risk and Compliance teams. Consideration and prioritisation of climate risk is also built into the decision-making and governance processes and is a requirement of key strategic Board risk assessment papers.

Scenario analysis is an important tool in the identification, assessment and management of climate change risk. Over the course of 2021 our existing in-house climate risk modelling capabilities have been supplemented with scenario analysis conducted in partnership with a leading climate risk modelling consultancy.

More on scenario analysis, see pages 55 and 56

Climate change risk identification

We combine a range of approaches to help us identify, understand and articulate climate risk, including academic research, industry-shared learning, scanning tools and relevant data sources, scenario analysis and best practice guides.

In 2021, M&G participated in the Bank of England's Climate Biennial Exploratory Scenario exercise (CBES) which explored how the values of our assets and liabilities might be impacted by the transition and physical risks emerging across three different climate pathways over a 30-year time horizon. In conducting this exercise we used both our existing in-house climate risk model and scenario analysis conducted with our consultancy partner. A number of climate scenarios, consistent with the CBES scenarios, were also considered as part of our Own Risk and Solvency Assessment (ORSA).

We also continue to actively participate in various external forums, including the Bank of England's Climate Financial Risk Forum (CFRF) and CRO Forums, which provide a useful platform to identify key ESG and climate change risks.

Integrating climate change risk management

Across M&G plc and its subsidiaries we continue to integrate climate change risk into a range of activities across the three lines of defence. At the corporate level this includes putting climate change at the heart of the risk assessments for key strategic decisions, helping to guide investment and resources across the business. Our bespoke ESG risk management framework has been implemented in 2021 and is now being integrated across the business. As part of this integration journey, we are establishing a new ESG Risk Governance structure across the business, which includes the setup of three discrete Risk Management Working Groups, focusing specifically on Environment (including climate change), Social and Governance risk issues. Examples of the activities undertaken across the three lines of defence are set out overleaf:

Examples of activities undertaken across the three lines of defence

Business areas (BAs)/first line of defence

Responsible for managing the ESG risks (including climate-related risks) that they are exposed to and for facilitating and evidencing this by:

- Maintaining the governance structure to support ESG implementation.
- Ensuring that business areas are undertaking appropriate analysis to identify ESG risk relevant to their areas.
- Ensuring individual ESG risk (including climate change) are mitigated within agreed appetite or appropriately risk accepted.
- Co-ordinating with control owners to ensure ESG controls are being developed, managed and reported.

Risk and Compliance oversight/second line of defence

Responsible for providing guidance, independent oversight and assurance on ESG risks (including climate–related risks), including:

- Reviewing first line of defence entity/project papers.
- Developing ESG guidance and training.
- Challenging that appropriate reporting and measures are in place.
- Ensuring appropriate stress/scenario testing are in place to monitor material ESG (including climate change) risk.
- Challenging outputs in terms of industry trends, learning and best practice.

Internal audit/third line of defence

- Providing independent ESG assurance to Executive and Boards across the first and second lines of defence.
- Assessing the quality, effectiveness, reliability of M&G plc's ESG approach.
- Providing independent challenge on the consistency of external ESG disclosures.

Throughout the past year we have continued to invest in and develop new capabilities in climate analytics, drawing on expertise from across our business (including technology, investment and risk professionals). Over the coming year we are looking to further integrate these new capabilities into our decision-making and risk oversight processes.

Climate change risk management as an asset owner

We use a number of methods to identify where our business and our investment portfolios are exposed to climate risk. Chief among these is scenario modelling. We are able to model our portfolio exposures and how they behave in different climate scenarios on an ad hoc basis, and will extend this capability across our portfolios, with regular refreshes. This will enable us to identify climate-related risks to the balance sheet, as well as track how individual climate risk exposures change over time. We will be able to take into account future developments in climate science and measurement by changing or adjusting the scenario parameters that we use within our modelling.

Our approach to scenario modelling is to incorporate bottom-up analysis (derived from security specific data) into a scenario parameterised in a top-down fashion. We are therefore able to identify security-specific risks to our investment portfolios and balance sheet and understand how they interact with economy-wide effects such as interest rates, carbon prices and physical risk effects.

Any conclusions we draw from scenario modelling are incorporated into our process for setting strategic asset allocations (SAAs). Our portfolio SAAs are then set at the geographical and sector level with portfolio positioning that best accounts for the risks identified.

We are also aware that scenario modelling does not identify all climate-related risks. We also consider various topical ESG issues, and their impact or contribution to climate change. We then contextualise these conclusions in our investment strategy at portfolio level to best manage these risks as they arise.

We regularly identify and monitor risks, including climate-related risks, with a frequency no less than annually. We devise mitigating actions against identified risks, and implement them as appropriate.

Climate change risk management as an asset manager

Similarly as an asset manager we also employ scenario modelling to identify exposure to climate risk across our portfolios. This includes physical risk modelling across our direct real estate investments to identify assets most at risk and plan to mitigate accordingly.

We are scaling our client engagement, using detailed analysis and tools to enable investee companies to consider climate risks and develop solutions accordingly. These tools include our climate and coal dashboards which provide a quantitative assessment of investee's exposure to certain climate factors, along with our ESG scorecard which acknowledges the qualitative nature of many ESG considerations.

In 2021, we implemented quarterly risk reviews to highlight and discuss material ESG risks and opportunities, such as climate, and to support the integration of ESG factors, including climate, into our investment decision-making. These reviews cover all major public equity and fixed income strategies with separate reviews undertaken for multi-asset portfolios.

Emerging risks

Emerging risks are newly developing or evolving risks which are potentially significant but are generally characterised by a high degree of uncertainty and are therefore difficult to quantify. We undertake an annual assessment to identify the Group's emerging risks and assess which will be subject to management and monitoring. The assessment brings together input from subject matter experts across the first and second lines of defence and incorporates a range of inputs including internal risk and control self-assessments and external perspectives.

We carry out a light touch review of the development of emerging risks during the year to update the assessment of emerging risks and our preparedness should the risk emerge, incorporating any material developments since the annual assessment.

Risk	Description
Social cohesion	The widening gulf between empowered and disenfranchised groups in society, growing cultural divisions and wealth inequality may lead to a lack of societal cohesion and increased activism.
Monetary and trade policies	Increasing trade tensions and conflicts between the world's major trading blocs could lead to increased trade barriers, regulatory fragmentation and the reversal of globalisation. The low interest rate environment that has prevailed in many advanced economies since the financial crisis also poses a variety of risks.
Longer-term impact of the COVID-19 pandemic	The longer-term economic, political and social implications of the current COVID-19 pandemic remain uncertain. Additionally, the impact on productivity, innovation and health and safety due to new ways of working is uncertain.
Artificial intelligence and digital disruption	The progress in artificial intelligence and cognitive computing may result in unforeseen risks or unpredictable outcomes. Keeping pace and managing obsolescence in the face of rapid change creates strategic, financial and operational risks for firms.

Basis of preparation

The Strategic Report presented in our Annual Report and Accounts for the year ended 31 December 2021 has been prepared in accordance with the Companies Act 2006 and the Disclosure and Transparency Rules (DTR) issued by the FCA. In accordance with Section 414C of the Companies Act 2006, DTR 4.1.8 and DTR 4.1.9, the Group is required to provide a fair, balanced and understandable review of the business, including key performance indicators to the extent necessary, and a description of the principal risks and uncertainties facing the Group.

The risk management section of the Strategic Report describes the principal risks and uncertainties on pages 70-83.

In preparing this Strategic Report we have considered the Guidance on the Strategic Report as issued by the Financial Reporting Council in July 2018.

In addition the Board has also considered the guidelines with respect to alternative performance measures (APMs) as issued by the European Securities and Markets Authority (ESMA) in October 2015.

Our Board believes that the APMs identified within the Strategic Report are useful for management and investors in assessing the performance of the business during the year, in conjunction with the relevant IFRS results included within the Group's consolidated financial statements.

John Foley
Chief Executive Officer
7 March 2022

Governance

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Governance to support our business

I am proud to open this Governance Report by highlighting some of the areas of governance which have had the most impact on us as a Board and as a business. I am also delighted to use this opportunity to welcome Edward Braham as our new Chair, who will take on the role with effect from 14 March 2022. Edward's experience of building international businesses while leading one of the largest global law firms, developing teams, managing stakeholders, as well as his strong transformational track record, make him a compelling choice for M&G.

Composition

The Nomination Committee has had a very busy schedule this year, on the Chair and Chief Financial Officer succession activities, and also on the review of the Board level skills that our business needs.

Clare Chapman joined our Board in March 2021, and has brought great focus to employee matters, critical for one of our key stakeholder groups.

We are also delighted to be welcoming Dev Sanyal to the Board in May 2022, bringing expertise in sustainable energy and executive operations.

Kathryn McLeland will also be joining the Board in May as our new Chief Financial Officer.

ESG focus

Environmental and climate issues have been a focus of the Board's agenda in 2021. On the next page we describe how we are embedding governance in this area and our achievements to date, including the approval of M&G plc's first Sustainability Report, the approval of our first interim target towards our goal of achieving net zero across our entire investment portfolio by 2050, and changes to our governance to recognise the increased work required around ESG risk oversight and climate reporting.

These changes recognise that the Non-Executive workload around environmental and climate matters is increasing, but we feel well positioned to take on this challenge and we are very supportive of John's ambitions in this area.

This year we will be asking our shareholders to support our climate transition plan through a specific "Say on Climate" resolution to be put to our shareholders at our AGM.

Culture

Culture was a key agenda item in 2020, and was an area of continued focus in 2021. This was a year in which we could build on our foundation work and the Board used this opportunity to debate its own role in overseeing culture and the data it needed to do this. Significant progress has been made but there is still more to do.

Review and evaluation

In addition to our regular year end evaluation, the Non-Executive Directors carried out a review of the governance across M&G plc with the aim of ensuring we maintained simple, purposeful and efficient structures. We collaborated with the Boards of PAC and MGG (our Material Subsidiaries) on this project, which was a very successful process. It is one of the key tasks of the Chair to ensure evaluation and self-assessment by the Board takes place to improve how we operate.

AGM

We thank all our shareholders who voted via proxy and who put forward questions to our AGM in 2021. While COVID-19 restrictions have made the traditional in-person meetings difficult, we nonetheless view the AGM as a critical point of engagement with shareholders and we strive to ensure your voting support remains at the high levels we have seen in 2021.

Fiona Clutterbuck
Interim Chair

"Welcome to our Governance Report. We hope this section demonstrates to you how the governance of M&G contributes to its long-term sustainable success and how the Board has carried out its duties throughout the year."

Fiona Clutterbuck
Interim Chair

Embedding governance over sustainability

Roles and responsibilities

We recognise that climate change has the potential to materially impact our business. Over 2021, the Board spent more time considering environmental, social and governance matters in preparation for delivering enhanced sustainability disclosures, including TCFD recommended disclosures on climate in this Annual Report.

The Board has also considered its own role in overseeing ESG matters, taking into account the increasing focus of our stakeholders on firms' reporting on climate risk and other ESG matters and the new disclosure requirements.

The Board made the following key changes to roles and responsibilities to ensure that our governance continues to support our sustainability, climate and other ESG ambitions:

- The Board retains its overall duty to set M&G plc's ESG strategy and its ESG values and principles.
- Specific duties around ESG reporting oversight, and development of assurance around ESG reporting have been added to the Audit Committee's terms of reference, which reflects our current practice.
- Specific duties around the oversight of ESG risk have been added to the Risk Committee's terms of reference. This is intended to demonstrate our focus in this area to our stakeholders, and to clearly separate reporting from risk, with the Risk Committee focused on business and other (e.g. people) impacts, emerging trends and mitigation of ESG risks.

With these changes in place, we feel the Board is well positioned to take on ESG duties moving forward.

Reflecting the scale and scope of our sustainability commitments and ambitions, our ESG programme, including our ESG risk management framework, is sponsored by our Chief Executive. The overall strategic priorities of the programme are agreed by the Executive Committee with overall responsibility for sustainability strategy allocated to the Chief Customer and Innovation Officer.

Key activities in 2021

In April 2021, the Board considered and approved its inaugural Sustainability Report. This was a particularly important milestone as it laid out the 10 point sustainability programme which we are now following. This formed a foundation for explaining the links between our strategy and our sustainability ambitions.

In May 2021, the Board received an in depth briefing covering the work of the firm's ESG programme, in particular the work to enhance the ESG characteristics of product offerings and to build the Planet+ range, through repositioning of existing funds or launching new versions.

In September 2021, the Board received an update on the firm's sustainability work, and also approved the Group's first interim net zero target, which commits to a 50% reduction in carbon emissions across 20% of M&G Investments' assets under management by 2030. This sits alongside our existing commitment to being carbon net zero in our own business operations by 2030.

Priorities for 2022

Our key priority for 2022 remains to implement the steps required to deliver our 10 point sustainability plan as detailed on page 40. This involves publishing interim net zero targets for our asset owner, as a member of the Net Zero Asset Owners Alliance and working to achieve our net zero carbon emissions goals for our business by 2030 at the latest, and by 2050 for our investment portfolio.

We will also continue to build our reputation as a champion of diversity and inclusion, and use our influence to encourage other companies to deliver improvements.

Skills and experience

ESG, in particular climate, is one of the areas of expertise that the Nomination Committee has been tracking on the Board Skills and Experience matrix since our listing. We were pleased to enhance the Board's skills in this area through the appointment of Dev Sanyal, who has deep experience in sustainable energy, in particular solar, wind energy and hydrogen, and bioenergy integrated low carbon power.

The Board also received dedicated training sessions and update material on ESG matters, with the main focus on climate, to ensure collective skills were enhanced in line with its increased responsibilities.

The topics of these sessions and materials are summarised below:

- Metrics and targets to measure ESG progress.
- An update on the firm's net zero commitments and stakeholders' expectations, with a progress update on the firm's work to date.
- Net zero methodology.
- Oversight of climate-related disclosure.
- Assurance approaches around climate-related disclosures.
- Reporting requirements.

Experienced leadership

This section shows the skills and experience of each Director and the specific strengths they contribute to the Company's long-term sustainable success

Key

- R Risk Committee
- A Audit Committee
- R Remuneration Committee
- N Nomination Committee

Fiona Clutterbuck

Interim Chair; permanent Senior Independent Director

N – Chair R A R

Appointment: 9 October 2020

Age: 63

Relevant skills and experience

Fiona Clutterbuck was appointed as the Senior Independent Director and is currently Interim Chair.

Fiona is Chair of Paragon Banking Group PLC and a Non-Executive Director at Sampo plc, the Nordic financial services group. She was previously a Non-Executive Director of Hargreaves Lansdown plc, until 8 October 2020. Her most recent executive role was Head of Strategy, Corporate Development and Communications at Pearl/ Phoenix Group (2008-2018), and she was previously Head of Financial Institutions Advisory at ABN AMRO Investment Bank and Global Co-Head of the Financial Institutions Group at HSBC Investment Bank.

Fiona served as a Non-Executive Director on the Investment Funds Direct Limited Board until January 2022.

Other appointments

- Paragon Bank plc
- Paragon Banking Group plc
- Sampo plc

Strengths

- Background as barrister, banker and Managing Director.
- Significant banking and wealth/ asset management experience.
- Professional services and technology-led innovation.

John Foley

Chief Executive

Appointment: 2 July 2018

Age: 65

Relevant skills and experience

John Foley was appointed to the Board of M&G plc on 2 July 2018, following his appointment as Chief Executive of M&G Prudential in August 2017.

Prior to this, John spent 17 years within the Prudential plc Group in a number of senior roles, including Chief Executive Officer of Prudential Capital and Group Chief Risk Officer, Group Investment Director and, most recently, Chief Executive Officer of Prudential UK & Europe. In January 2016, he re-joined the Prudential Board, having already served a previous term while Group Chief Risk Officer.

Prior to joining the Prudential Group, John spent over 20 years at Hill Samuel & Co, where he worked in every division of the bank, culminating in senior roles in risk, capital markets and treasury for the combined TSB and Hill Samuel Bank. John spent three years as General Manager, global capital markets at National Australia Bank.

Other appointments

- None

Strengths

- Management and leadership.
- Deep historical experience of the Group.

Clive Adamson

Independent Non-Executive Director

R – Chair A N

Appointment: 22 March 2019

Age: 65

Relevant skills and experience

Clive Adamson has considerable experience of UK and global economic, banking and regulatory matters gained from an extensive career in banking and financial services regulation, including senior executive and advisory positions with the FCA and its predecessor, the Financial Services Authority.

Clive is a Non-Executive Director on the PAC Board and Chair of the PAC Risk Committee.

He is also the Senior Independent Director at Ashmore Group plc and holds a number of board positions within the JP Morgan Chase group including Chair of JP Morgan Europe, Non-Executive Director in the board of JP Morgan Securities plc and Chair designate of Nutmeg Savings & Investments Ltd. He is also a Senior Advisor at McKinsey & Co. He was previously a Non-Executive director and Chair of the Risk committee at Virgin Money plc (formerly CYBG plc).

Other appointments

- Ashmore Group plc (SID)
- J.P. Morgan Securities plc
- J.P. Morgan Europe Limited (Chair)
- Nutmeg Savings and Investment Limited (Chair Designate)
- McKinsey & Company (Senior Advisor)

Strengths

- Executive background as banker and regulator.
- Deep life insurance and with-profits experience.
- Emerging markets investment experience.
- Professional services.

Clare Chapman

Independent
Non-Executive Director

R – Chair R N

Appointment: 15 March 2021

Age: 61

Relevant skills and experience

Clare currently chairs the Remuneration Committee at Weir Group. Clare is also the Chair of ACAS , the Advisory, Conciliation and Arbitration Service for Great Britain and co-Chair of The Purposeful Company which focuses on transforming UK business with purposeful companies that create long-term value by serving the needs of society.

Her executive career included HR leadership roles at BT Group, the UK Department of Health and Social Care and Tesco, as well as international roles at Pepsi-Cola International and Quaker Oats.

Her previous non-executive experience includes chairing the remuneration committees at Kingfisher, G4S and Heidrick & Struggles.

Other appointments

- Weir Group
- ACAS
- The Purposeful Company
- Reconciliation Leaders Network

Strengths

- Executive background in HR.
- Telecomms, Retail and the Public Sector.

Clare Thompson

Independent Non-Executive
Director and Interim SID

A – Chair R R N

Appointment: 7 May 2019

Age: 67

Relevant skills and experience

Clare Thompson is an experienced Non-Executive Director with a deep understanding of the insurance sector. With extensive financial services and audit experience, Clare spent 23 years as lead audit partner on major financial services groups at PwC, predominantly in the insurance and investment sectors.

Since stepping down from her executive career, Clare has developed a portfolio of Non-Executive directorships, as well as a previous Non-Executive Director role at Direct Line Group plc, she currently serves on the Board of Bupa Group.

Clare is also Chair of the Investment Funds Direct Limited (IFDL) Board. IFDL is the main Ascentric operating entity.

Clare is a Fellow of the Institute of Chartered Accountants in England and Wales.

Other appointments

- Bupa
- Financial Reporting Council
- Investment Funds Direct Limited (Chair)

Strengths

- Executive background as accountant and audit partner.
- Significant advisory/professional services work, specifically for life insurance and investment clients.

Massimo Tosato

Independent
Non-Executive Director

R

Appointment: 1 April 2020

Age: 67

Relevant skills and experience

Massimo Tosato joined M&G plc as an Independent Non-Executive Director and is also Chair of M&G Group Limited. Massimo has more than 30 years' experience as an investment banking and asset management entrepreneur and senior manager.

Massimo's career has included 21 years at Schroders, where he served most recently as Chief Executive of Schroder Investment Management Limited and Executive Vice Chairman of Schroders plc. He has also held Board positions at Nutmeg, an online discretionary investment management start-up, Banca Nazionale del Lavoro, and served as Vice President of the European Fund and Asset Management Association (EFAMA).

Massimo is currently Non-Executive Director of Banca Intermobiliare and serves on the Board of Overseers of Columbia Business School in New York and, until 31 March 2020, he was also Non-Executive Director of Pictet Asset Management in Geneva. Massimo also served as an Advisory Board member of Trilantic Europe Capital Partners LLP until its closure in January 2022.

Other appointments

- Columbia Business School of Columbia University
- Banca Intermobiliare di Investimenti e Gestione Spa

Strengths

- Deep asset management experience in executive career.
- CEO experience.
- Regulatory experience.
- International perspective.

Alan Porter

General Counsel and
Company Secretary

Appointment: 22 July 2019

Age: 58

Relevant skills and experience

Alan Porter was appointed General Counsel and Company Secretary in July 2019, having held the same role at Prudential plc since September 2012. Prior to that, he was the Group General Counsel of Tesco plc for four years and held various senior legal positions at British American Tobacco plc and Farmers Insurance Group. He began his career at Simmons & Simmons.

Alan was Chairman of the GC100 – the association of General Counsels and Company Secretaries of the FTSE 100 – from January 2018 to January 2020, and is currently a member of the Takeover Panel.

Alan is a solicitor and also a member of the State Bar of California.

Joining the M&G plc Board of Directors this year

We are pleased to have completed three successful appointment processes and we welcome our new directors to the Board

Edward Braham
Chair

Appointment: 14 March 2022

Age: 60

Relevant skills and expertise

In February we announced the appointment of Edward Braham as our new Chair with effect from 14 March 2022.

Edward was Senior Partner of Freshfields Bruckhaus Deringer LLP, the global law firm and before that was global head of its Corporate practice. While Senior Partner, he headed the firm's strategic growth in the US, including establishing a new office in Silicon Valley. Edward also led on culture, diversity and ESG. Edward was a leading international lawyer in mergers and acquisitions, with experience in many industries including financial services.

Edward is a Non-Executive Director of TheCityUK, where he chairs the International Trade and Investment Group and is a member of the Remuneration and Nomination Committee. He has also recently become a Non-Executive board member of HM Treasury and a member of its Audit and Risk and Nominations Committees.

Other appointments

- Museum of London (member of Campaign Board)
- Capital as a Force for Good (Member of Advisory Council)
- Goldsmiths Company (Assistant, Director of the Goldsmiths' Charity and Chair of the Trustees of The Goldsmiths' Centre)

Strengths

- Experienced leader of an international people business.
- Broad sector experience from advising public companies, private equity investors, infrastructure investors and financial institutions and from public affairs work for the financial and related professional services sector and the professional and business services sector.
- Regulatory experience.

Dev Sanyal
Independent Non-Executive Director

Appointment: 16 May 2022

Age: 56

Relevant skills and expertise

In December 2021, we announced that Dev Sanyal would be joining the M&G plc Board on 16 May 2022.

Dev was recently appointed as Chief Executive Officer of Swiss based VARO Energy Group AG, a leading European energy transition company, effective 1 January 2022. Prior to that Dev had been a member of bp's Group Executive committee for over a decade in a 32-year career with the company where he headed the Gas and Low Carbon Energy business globally, and was Chief Executive, Alternative Energy and was also responsible for bp's Europe and Asia regions. Prior to that he was Group Treasurer and Chairman, bp Investment Management Ltd. He led bp's entry in solar and offshore wind energy and hydrogen, expanding its bioenergy integrated low carbon power and onshore wind businesses as well as building businesses in hydrogen and gas and power.

Since 2013, Dev has also been an independent Non-Executive Director of Man Group plc and will step down from that Board at the conclusion of its AGM in May 2022.

Other appointments

- Ministry of Petroleum & Natural Gas (India)
- Centre for European Reform (UK)
- Tufts University, The Fletcher School of Law and Diplomacy

Strengths

- Deep experience in sustainable energy, solar and wind energy and hydrogen in particular, and bioenergy integrated low carbon power.

Kathryn McLeland
Chief Financial Officer

Appointment: 2 May 2022 (subject to regulatory approval)

Age: 50

Relevant skills and expertise

In January we announced the appointment of Kathryn McLeland as Chief Financial Officer and that she would be joining M&G plc in May, subject to regulatory approval.

Kathryn joins from Barclays PLC where she has been Group Treasurer since 2018 having previously held a series of senior roles since joining Barclays Capital in 2001. Prior to that, Kathryn spent a number of years in investment banking with Merrill Lynch and Salomon Brothers International.

Other appointments

- Listing Authority Advisory Panel (Deputy Chair)

Strengths

- Strategic, commercial finance leader with significant global international banking and capital markets experience.
- Capital management and strategy, principal equity investments (including sustainable impact and Fin Tech) and investor relations.

Our compliance with the 2018 UK Corporate Governance Code, and how we have applied its Principles and Provisions

The 2018 UK Corporate Governance Code can be found on the FRC website

The table below sets out examples of how the Board has done this for each Principle, enabling our shareholders to evaluate our Code compliance for themselves. We have not attempted to include all details in this table, but focused on the key actions that demonstrate our adherence to the Code and we've signposted different parts of the Governance Report where you can find more information.

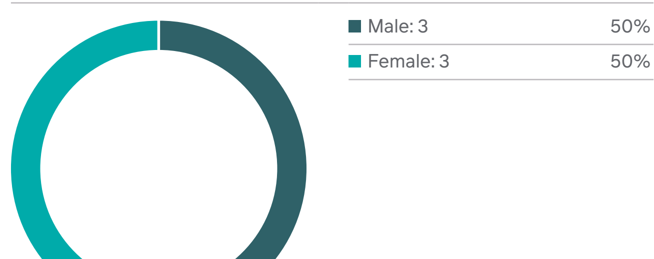
The Company complied with the Code save that, in relation to Code Provision 24, Fiona Clutterbuck took on the role of Interim Chair in the period from 11 January 2021 and, in the expectation that her role as Interim Chair would be for a short period, also continued in her roles as a Non-Executive member of the Audit, Risk, Remuneration and Nomination Committees. Her Senior Independent Director duties have been carried out by Clare Thompson during this time period. Due to the longer than anticipated duration of Fiona's role as Interim Chair, the Company was not technically compliant with Code Provision 24 during this period, as the Interim Chair of the Board was also a member of the Audit Committee. Compliance with the Code has been restored following Edward's appointment as Chair with effect from 14 March 2022.

	Code Principle	Read More
	Board Leadership and Company Purpose	
A	The Board has been found to have operated effectively over 2021, using an internal board evaluation to test this. Focus on the long-term success of the Company continues to influence decision-making around a number of key decisions, including three new appointments to the Board and the decision to acquire Sandringham Financial Partners to support our Revitalise UK strategic priority.	Page 106
B	The Company's purpose and values have been further strengthened throughout 2021 by the Board's oversight of M&G plc's culture journey, which the Board tested and reviewed in September 2021. The Board has also focused on our ESG and Sustainability purposes.	Page 96
C	The Board has measured performance carefully through dedicated presentations from all key parts of the business and regular management information, including changes to the agenda where necessary. Through the Audit Committee, the Board has reviewed the testing of and challenged M&G plc's controls and is satisfied with their robustness.	Pages 110-116
D	Stakeholder engagement continues to cover a range of topics, with focus on customers and clients as M&G plc serves its wide range of audiences across individual, institutional and professional investors and our environment and community as we confirm our climate targets.	Pages 96-101
E	We were pleased that our One Voice employee opinion survey in 2021 showed that our workforce feels comfortable to speak out and we have embedded this important principle within our Code of Conduct.	Page 97
	Division of Responsibilities	
F	Fiona Clutterbuck, as Interim Chair, has led the Board effectively throughout 2021 and the Board has focused on developing its working practices, the relationships between Non-Executive and Executive Directors and how the Board skills and experiences can be enhanced.	Page 106
G	The Board has maintained the required composition throughout the year using interim positions where required. Fiona Clutterbuck took the role of Interim Chair in early 2021 and, at the same time, Clare Thompson took on Senior Independent Director (SID) duties.	
H	All Non-Executive Directors have committed appropriate time to their roles and made themselves available for additional meetings as required. This has been reviewed by the Nomination Committee.	
I	The Company Secretary has been effective throughout the year and has continued to monitor Board paper preparation and reporting processes. Governance manuals have been updated in response to the Board's Governance review.	
	Composition, Succession and Evaluation	
J	The appointments of Clare Chapman and Dev Sanyal appropriately addressed improvements the Board wished to make in its range of skills. The Nomination Committee continues to lead transparent selections, with weight given to gender, ethnicity and diversity of thought.	Page 108
K	The Nomination Committee considers Committee membership and length of tenure annually, typically in February.	Pages 88-90
L	The evaluation of the Board for 2021 was undertaken by means of an internal questionnaire circulated to each Board member. The Board was found to be operating effectively.	Page 106
	Audit, Risk and Internal Control	
M	The Audit Committee has led on assessing auditor independence and effectiveness and has reviewed all material narrative and financial statements, in 2021.	Pages 110-116
N	The Board is satisfied that a fair, balanced and understandable assessment of the firm's financial position is presented.	
O	The Risk Committee has assessed Principal Risks and set and monitored risk appetite. The Audit Committee has overseen the Integrated Control Framework.	
	Remuneration	
P	Remuneration design has continued to evolve during 2021 to take into account the culture that we want to promote and the risk limits to which colleagues must adhere. Executive remuneration is linked to the successful delivery of M&G plc's strategy.	Pages 119-129
Q	The Remuneration Committee has led a formal and independent process to measure and challenge executive remuneration. None of the Executive or Non-Executive Directors have taken any role in setting their own remuneration.	
R	Remuneration outcomes for Executive Directors are ultimately determined by the Remuneration Committee, applying independent judgement and ensuring the wider context of business success, culture and risk appetite are taken into account alongside any applicable regulations.	

A balanced Board, a balanced agenda

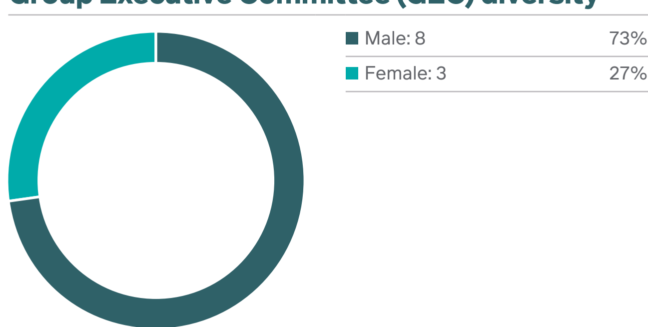
These pages tell you more about the composition of the Board and its members, the meetings we have held over 2021 and how we have spent our time

Board diversity



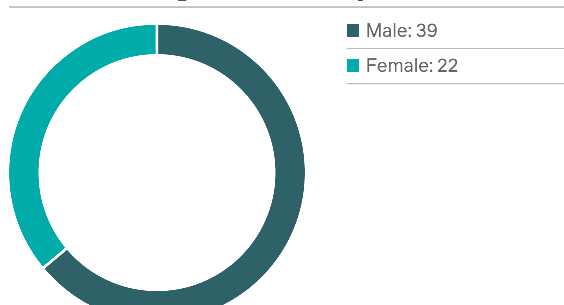
Male: 3	50%
Female: 3	50%

Group Executive Committee (GEC) diversity



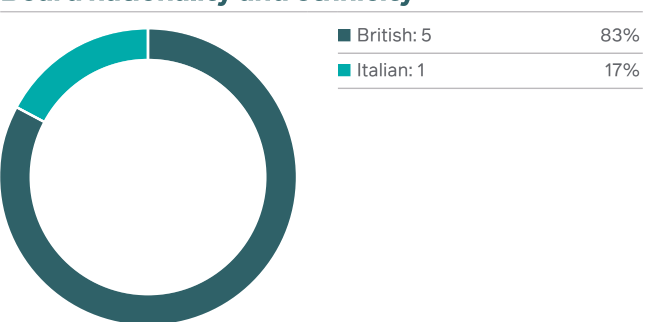
Male: 8	73%
Female: 3	27%

Senior managers: direct reports of GEC diversity



Male: 39	64%
Female: 22	36%

Board nationality and ethnicity



British: 5	83%
Italian: 1	17%

All figures are as at 31 December 2021.

For more information on the M&G's Diversity policy and goals
Page 65

How the Board spent its time

The Board seeks to balance its agendas in order to ensure it covers all its statutory and regulatory duties as well as allowing time for strategic and governance matters.

This section shows how the agenda is weighted between regular items and specific focus areas for the Board in 2021.

The typical Board agenda allows time for:

General matters

Minutes, matters arising and reports from the Chairs of each committee on its activities.

Business updates

Regular performance and financial reporting. The Chief Executive, Managing Director – Retail and Savings, Managing Director – Asset Management, Chief Operating Officer and Chief Financial Officer will typically report in this section, with a rolling programme of reporting from the other members of the Executive Committee.

Strategy

Covers projects and transactions, as well as approvals which the Board is requested to give under M&G plc's delegated authority framework, such as the business plan and dividend, and updates on strategy progress.

Risk, regulatory and governance

Regular reporting from the Risk and Compliance, Regulatory Affairs, Legal and Company Secretariat functions.

In addition to the regular reporting above, the key focus areas for the Board in 2021 are set out in the table on
Page 106

Board and Committee attendance

Total meetings	Board 15	Audit Committee 9	Risk Committee 5	Remuneration Committee 7	Nomination Committee 7
Clive Adamson	15/15	9/9	5/5	–	7/7
Clare Bousfield	13/13	–	–	–	–
Clare Chapman	11/11	–	4/5	3/3	7/7
Fiona Clutterbuck	15/15	9/9	5/5	6/7	4/4
John Foley	15/15	–	–	–	–
Robin Lawther	4/4	4/4	2/2	4/4	1/1
Clare Thompson	15/15	9/9	5/5	7/7	7/7
Massimo Tosato	12/15	–	–	7/7	–

The Board held a number of ad hoc meetings during 2021. As a result, some meetings were called with less notice than would be usual, meaning attendance for Directors was more challenging.

In all cases, Directors unable to attend reviewed documentation and provided comments as appropriate to the meeting Chair.

Board

Of the 15 Board meetings held, three were joint with the Audit Committee to consider the Full Year and Half Year Results. The Board also held four ad hoc meetings throughout the year. Clare Chapman joined the Board on 15 March 2021. Clare Bousfield stepped down from the Board on 1 October 2021. Mike Evans was on a leave of absence from 11 January and stepped down from the Board on 1 April 2021 and therefore did not attend any Board or Committee meetings in 2021.

Audit Committee

Of the nine meetings held by the Audit Committee, three were joint with the Board. There were also two joint meetings held with the Risk Committee. Robin Lawther stepped down from the Committee with effect from 15 March 2021.

Risk Committee

Five meetings were held. There were also two joint meetings held with the Audit Committee. Clare Chapman joined the Committee on 15 March 2021. Robin Lawther stepped down from the Committee with effect from 15 March 2021.

Nomination Committee

Seven meetings were held. Clare Chapman joined the Committee on 15 March 2021. Robin Lawther stepped down from the Committee with effect from 15 March 2021.

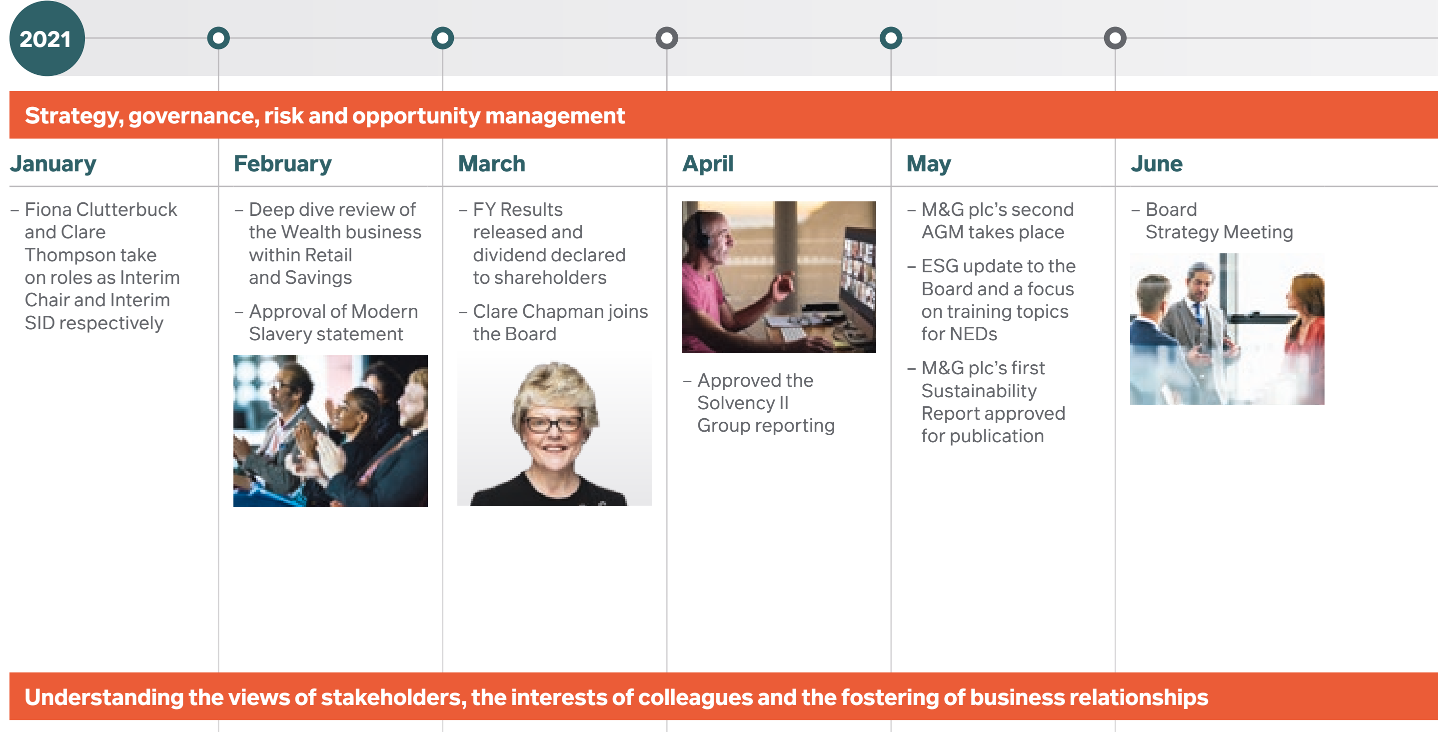
Ms. Clutterbuck's attendance reflects the fact that she was recused from attending meetings where matters under review represented a potential conflict of interest.

Remuneration Committee

Seven meetings were held. Robin Lawther stepped down from the Committee with effect from 15 March 2021. Clare Chapman joined the Committee on 15 March 2021.

The Board's Year

The timeline below sets out key decisions and actions during 2021 and how stakeholders were involved or their interests taken account of



2021

Strategy, governance, risk and opportunity management

January

- Fiona Clutterbuck and Clare Thompson take on roles as Interim Chair and Interim SID respectively

February

- Deep dive review of the Wealth business within Retail and Savings
- Approval of Modern Slavery statement

March

- FY Results released and dividend declared to shareholders
- Clare Chapman joins the Board

April

- Approved the Solvency II Group reporting

May

- M&G plc's second AGM takes place
- ESG update to the Board and a focus on training topics for NEDs
- M&G plc's first Sustainability Report approved for publication

June

- Board Strategy Meeting

Understanding the views of stakeholders, the interests of colleagues and the fostering of business relationships

January

- Reacting to changing governance needs and ensuring that our Board leadership remains robust for all our stakeholders

February

- Close oversight of the development of our business offerings for customers
- Commitment to our suppliers and other stakeholders to help end slavery, human trafficking, child labour and any other abuse of human rights

March

- Considering the views of the regulator and markets around solvency and risk appetite
- Thinking about our shareholder needs today and those of the business longer-term
- Ensuring all our stakeholders are served by bringing the right skills on to the Board

April

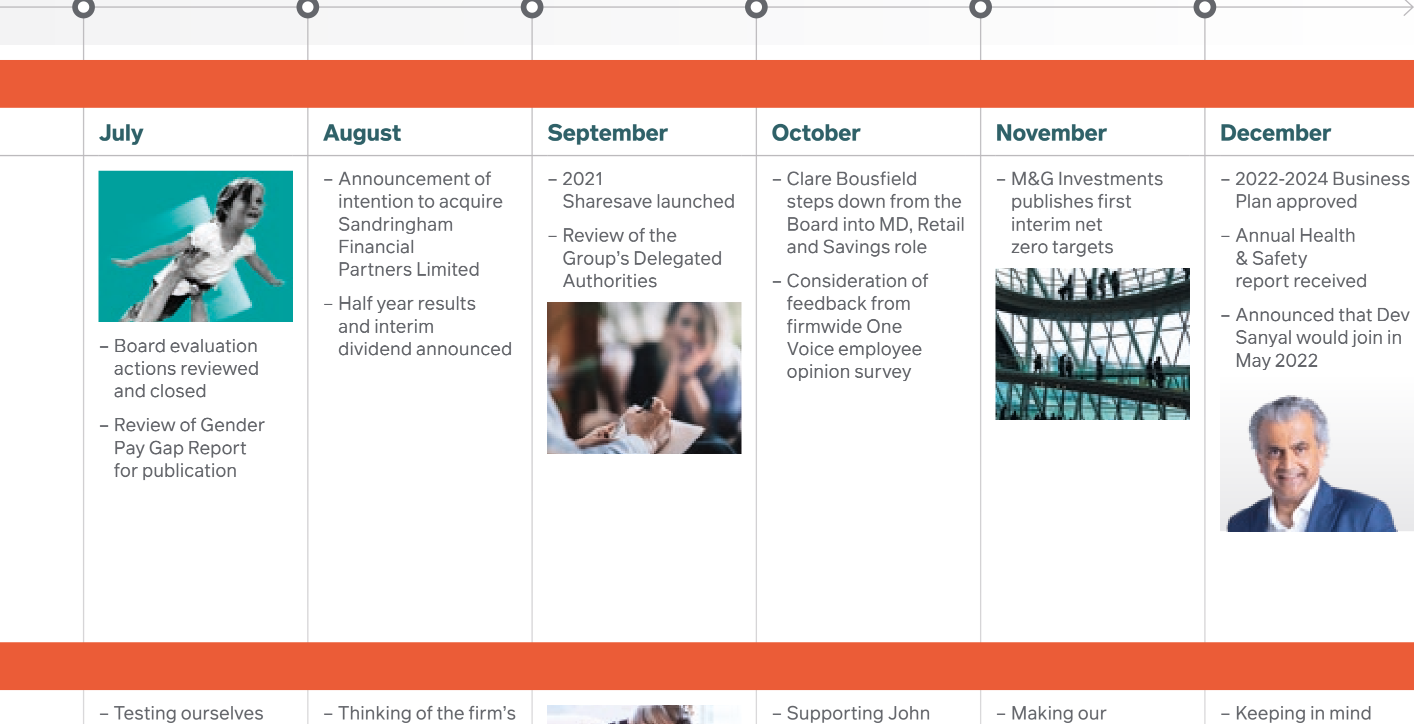
- Taking into account our wider communities and environments, as well as serving investor client needs by publishing clear updates on our Sustainability ambitions

May

- Hearing from our shareholders, particularly our retail shareholder community, about what matters to them
- Keeping the Board skills robust and up to date, in order that they can serve all stakeholders in changing environments
- Letting our investors, our communities and our regulators know how we carry out our stewardship

June

- Taking time to look across the business at our strategy ambitions, and in particular thinking about our shareholders and colleagues over the longer term



July

– Board evaluation actions reviewed and closed

– Review of Gender Pay Gap Report for publication

August

– Announcement of intention to acquire Sandringham Financial Partners Limited

– Half year results and interim dividend announced

September

– 2021 Sharesave launched

– Review of the Group's Delegated Authorities

October

– Clare Bousfield steps down from the Board into MD, Retail and Savings role

– Consideration of feedback from firmwide One Voice employee opinion survey

November

– M&G Investments publishes first interim net zero targets

December

– 2022-2024 Business Plan approved

– Annual Health & Safety report received

– Announced that Dev Sanyal would join in May 2022

July

– Testing ourselves against the actions we set at the beginning of the year to ensure we are improving as a Board to continue to serve all stakeholders

– Consideration of our colleagues and our commitments to the wider community on D&I

August

– Thinking of the firm's long-term ambitions for growth, the good fit with our existing advisory offerings for customers, the regulatory requirements involved in the acquisition

September

– Ensuring colleagues at all levels can commit to the business and share in its success

– Keeping decision-making clear and controlled is a key part of our governance to give comfort to our investors and regulators and to ensure colleagues can work easily within frameworks

October

– Supporting John in his Executive Committee changes and in this case, in particular, making sure our customers in Retail and Savings are served by strong executive management

– Giving full time and consideration to the feedback we receive from our colleagues, as stakeholders in our business and thinking about how their views can be taken into account in Board decisions

November

– Making our commitment to the environment and communities that we live and invest in

December

– Keeping in mind the investors and customers of now and the future in our business planning

– Colleague well-being and safety are key to our culture at M&G

– Building further on our robust leadership for all stakeholders and particularly our sustainable investors and our environment and communities with the appointment of Dev Sanyal

How we engage with our stakeholders

Section 172 Statement

At M&G plc, the Board seeks to consider the interests of all our stakeholders when reaching decisions

This will involve a detailed assessment of the effect of a decision on relevant stakeholder groups. Our considerations also include M&G's impact on the environment and our part in tackling climate risk, as well as how our activities affect the many communities we serve. We are always mindful of our reputation. This section gives you more detail on how we have engaged with and taken account of our stakeholders' interests over the year.

Reporting requirement	Page
Who our key stakeholders are and how we have engaged with them in 2021	97-101
How we have taken our stakeholders' interests into account when making principal decisions	96
How the Board has considered our stakeholders during 2021	94-95

Principal decisions

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole.

In doing this, Section 172 requires a director to have regard, amongst other matters, to the:

- likely consequences of any decisions in the long term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- desirability of the company maintaining a reputation for high standards of business conduct; and
- need to act fairly as between members of the company.

In discharging Section 172 duties, the Board has regard to the factors set out above, as relevant, and also additional factors, which are specific to the matter under consideration. It is understood that the importance of each factor will vary depending on the decision being taken.

Board decisions

Set out below are some examples of what stakeholder implications were considered in key decisions taken by the Board.

Acquisition of Sandringham

In August 2021, we announced our planned acquisition of Sandringham Financial Partners, a fast growing provider of independent financial advice.

The Board considered its long-term ambitions for growth and how the acquisition would support that ambition and complement our Wealth strategy, Sandringham being a good fit with M&G's broader asset management activities.

The Board also considered the valuation of the business, taking into account recent comparative transactions, and the strategic opportunities for growth. The Board also reviewed the outcome from the due diligence process and plans to integrate within the Wealth business.

The Board considered the significantly increased opportunities for adviser relationships that the transaction would bring and was mindful of the wider range of UK customers that could be reached through the transaction, helping to close the advice gap.

Dividend Payments in 2021

In May and September 2021, the Board made dividend payments to shareholders in line with its Dividend Policy.

The Board held a number of meetings in April, and again in July and August, to test that the firm's solvency and financial position remained robust both before and after the proposed dividend payments.

The continued uncertainty and volatility caused by the COVID-19 pandemic during 2021 remained an area of consideration.

The Board used the skills of the Risk Committee to consider a number of adverse scenarios to test whether the Group would remain within its Risk appetite. In particular, the Board balanced immediate expectations around the Dividend Policy and returns to investors with ensuring the longer-term needs of the business were supported.

Climate Targets/NZAMI Disclosures

In September 2021, as a founder member of the Net Zero Asset Management Initiative (NZAMI) and having considered stakeholder expectations, the Board approved, in principle, the firm's commitments around sustainability, including our first interim target towards our goal of achieving net zero across our entire investment portfolio by 2050. Our interim target commits to achieving a 50% reduction in carbon emissions across 20% of M&G Investments' assets under management by 2030.

The Board needed to consider here both the needs of our clients in the products they want to invest in and the impact of these products on the community. In reaching its decision, the Board considered carefully the credibility of the targets and the positive messages we want these to project to our regulators, customers and shareholders.

The Board also noted the importance of prior engagement with clients.

Colleagues

Our colleagues are the most valuable asset we have and are critical to our success as a business. We have an established approach to the way we engage with colleagues at all levels, from the Board to the Group Executive Committee and senior leaders, which includes both formal and informal meetings. The Board receives a quarterly Employee Voice pack setting out colleague demographics, key people metrics, top people risks, a culture dashboard, One Voice employee opinion and pulse surveys as well as ad hoc updates. The Non-Executive Directors have also attended a number of Colleague Forum meetings during the year and have reflected on the feedback they received during those sessions.

We have embraced the use of technology to deliver messages and this has been particularly effective during the pandemic. These messages are delivered by senior managers using a range of formats, including email, video, and interactive virtual meetings.

The Chair and members of the Group Executive Committee also took part in video messages and interviews. These were delivered to colleagues via a dedicated communication channel, providing them with insight as to how the business is developing as well as other practical updates.

Colleague welfare, as well as customer focus, has been at the centre of everything we have tried to do during the COVID-19 pandemic, particularly as work patterns flexed and changed. The Board understood and recognised the need to constantly adapt and modify available resources to help colleagues access remote well-being support, advice and resources.

Culture programme

Following significant work undertaken in 2020, the culture programme remained one of our key priorities during the year. The Board receives quarterly data including both people data and a culture dashboard that was introduced at the start of the year. A specific Board training session also took place, which included discussion on the Board's role in establishing culture.

The Board continues to recognise its crucial role in providing oversight and ensuring stewardship of the firm's culture.

Annual engagement survey

Listening to colleague feedback is important to us and our annual One Voice survey captures feedback and tracks engagement across M&G plc. The One Voice survey is supplemented by "Pulse" engagement surveys which give a snapshot of sentiment from a sample group of colleagues.

Survey results were discussed at Board and Group Executive Committee level to identify areas for improvement which were then communicated back to the business. The continued impact of organisational and transformational change on the workforce was a key factor in 2021, as was our approach to both the COVID-19 pandemic and future ways of working.

Each function has its own action plan and progress is tracked by and discussed with the Group Executive Committee.

Virtual town hall events

Directors have continued to adapt to the challenges that the COVID-19 pandemic has presented to traditional ways of working by presenting interactive updates across business functions and locations. These included the "In conversation with" series in which the Chief Executive and other key members of senior management presented items such as the half year results, strategy and sustainability. The "Sustainability Talks" series was also introduced for 2021. Using new technologies we have also provided opportunities for colleagues to raise questions. Virtual presentations by senior management included a focus on what M&G plc's culture, and specifically its purpose, values and behaviours, mean to them.

Site visits

Continued travel restrictions caused by the COVID-19 pandemic have unfortunately meant the Board was unable to undertake many site visits this year. The relaxation of restrictions in December, however, allowed the Chief Executive and MD of M&G Wealth to visit Ascentric colleagues in our newly acquired office in Bath where they learned what they were doing to deliver for our customers.

The Board is making plans to reinstate site visits further afield as soon as international travel restrictions are lifted. In the meantime, the Chief Executive was able to join the team in South Africa and Namibia, via video link, to mark the launch of the M&G Investments brand in Southern Africa.

The benefit of these visits is recognised to give a valuable understanding of colleagues' opinions and their working environment.

Facilitated by the HR function, the Board held two colleague engagement sessions: the first on 27 July, with colleagues in Asia, and the second on 18 November, with colleagues in the Investments team. Both sessions were well received by Board members and colleagues. There was also a Board led panel event in March to celebrate International Women's Day.

Colleagues as shareholders

In July, the Board approved a further offer of the UK Sharesave and International Sharesave plans to all eligible employees, which was launched in September. This builds on our ambitions to align employee interests with our business strategy.

Customers and clients

We consider the needs of our customer in everything we do. One of the ways in which the Board monitored customers and what we are offering them is the regular reporting from the Chief Customer and Innovation Officer (CCIO) to its scheduled meetings. As well as qualitative reporting from the CCIO, the Board also received data on customer satisfaction, complaints and outcomes.

In 2022, following changes to our management structure to give clear ownership for the end to end customer journey and associated financial results, the Board will liaise with the Managing Directors of the Retail and Savings and Asset Management Businesses.

Throughout 2021, the Board has focused specific attention on the following, when we consider the needs of our customers:

- improving customer service, particularly for our Pru customers;
- broadening our UK financial advice footprint and proposition;
- shifting our investment philosophy to ESG, sustainability and impact; and
- increasing the breadth and quality of our digital customer and client experience.

Further detail on progress in each focus area is below.

Customer service

Service levels with our Pru UK customers are recovering following challenges this year. Additional staff were recruited and reorganised in order to meet demand, and digital transformation to improve our service systems continues. The Board has been kept regularly informed as to service level issues. The PAC Chair also has a regular dialogue with the Plc Chair to escalate any issues that are required.

The firm's mandatory all-employee training, which was introduced for Board members in Q4 2021, included sessions on Customer Vulnerability.

Financial advice proposition

M&G Wealth has grown its advice footprint this year, with the decision to acquire Sandringham Financial Partners and the launch of The Advice Partnership Academy.

The Sandringham acquisition in particular will grow M&G Wealth's independent advice footprint by around 180 advisers and over 10,000 clients, enabling M&G Wealth to provide financial advice to a wider range of UK customers, in turn helping to close the advice gap. M&G Wealth also appointed its first CIO to develop and manage its investment products.

Investment philosophy

A number of new propositions were taken to various markets this year, which were designed to enable our customers to invest sustainably, such as: PruFund Planet, M&G Climate Solutions Fund, and the M&G Diversity & Inclusion Fund.

These products will meet the growing demands of both our customers and clients, and the planet. In addition, we are transitioning many of our existing funds to be sustainably invested (in many cases this means meeting the standards of SFDR Article 8). We have made strong progress in 2021 e.g. transitioning the (Lux) Optimal Income Fund to SFDR Article 8, with more to come in 2022 and beyond.

Digital services

We have made great strides this year to increase the breadth and quality of our range of digital services for customers across multiple brands. This includes changes to support vulnerable customers, and making financial guidance and advice more accessible.

In addition to this, we have launched a new suite of modern and user-friendly customer facing websites; rebranded our operating brands to a cohesive family of brands that reflect the values of M&G plc; and enhanced our social media presence.

These changes will ultimately make it easier for customers to do business with us.

Investors

Institutional shareholders

The Board is kept aware of major shareholder issues and concerns through reports from a variety of sources including the Chief Executive and Chief Financial Officer reports, a regular report at Board meetings by the Director of Investor Relations and feedback from the Chair on governance meetings with major investors. The Chair of the Remuneration Committee also reports to the Board on discussions with shareholders. The Investor Relations Report covers share price performance, investor meetings, and analyst reports, views and forecasts.

Investor engagement

2021 was a year in which frequent and constructive engagement continued to be crucial as the economy and financial markets were still heavily impacted by the COVID-19 pandemic.

In the early part of 2021, we conducted a number of meetings with the Chair to discuss with investors broad issues of governance, and to hear their views on our Sustainability disclosure. We announced our 2020 full year results on 9 March 2021 and, once again, due to the pandemic, all roadshow activity following the announcement was held on a virtual basis via conference calls and video meetings.

Our half year results were announced on 10 August. Around both announcements and throughout the rest of the year, we have engaged on a regular basis with both sell-side analysts and investors through a variety of means including virtual roadshows, virtual investor conferences, and analyst sponsored virtual group investor meetings.

This activity enables the Board to have a timely and accurate understanding of investor perspectives and concerns. In aggregate, over 2021 we carried out almost 300 virtual interactions with investors representing over 150 institutions and c.50% of our shareholder register. The number also includes some investors that are non-holders but might be interested in acquiring M&G shares.

Retail shareholders

Retail shareholders have dedicated services in place via the Group Secretariat team and the Company's registrar, Equiniti.

Key information is also available on the Company's website including the "Shareholder Information" section which contains information on corporate governance, dividends, the AGM and share dealing, as well as answers to some of the most frequently asked questions. These sections continue to be developed and updated to ensure content is clear, concise and easily accessible.

The Board recognises the AGM as an important formal interaction with predominantly retail shareholders and was pleased to be able to hold its first hybrid AGM during 2021 with all shareholders invited to join proceedings virtually.

Shareholders were encouraged to use the virtual meeting technology to ask questions live in the meeting, as well as having had the opportunity to pre-register questions in advance. The virtual meeting technology also enabled shareholders to vote on the AGM resolutions live in the meeting.

To ensure all shareholders were able to access the AGM content regardless of their attendance on the day, the Company's website was updated after the AGM with confirmation of the voting results.

To ensure the AGM is accessible for all shareholders, the 2022 AGM will be run as a hybrid meeting where virtual attendance will also be offered.

Communities and charities

We have a clearly defined overarching social purpose which works towards a future where our communities are more resilient and inclusive. Flagship programmes (urban regeneration; economic empowerment; and skills and education) support all our strategic priorities.

The community investment strategy and how it is being delivered, has been reviewed by the Corporate Responsibility Governance Committee and discussed at Executive Committee and Board level.

Over 2021, the Board considered M&G plc's social purpose, the flagship programmes within social purpose; how colleagues have been engaged in community and charity work and how we compare to other listed companies.

We aim to establish long-term relationships with our charity partners to improve lives, build communities and provide support, not only through funding, but also with the experience and expertise of our colleagues. We collaborate with colleagues to ensure our support is both strategic and local in impact.

The projects we support are sustainable and we work closely with our partners to ensure that our programmes continuously improve and are able to respond swiftly to emerging needs.

Read more
Pages 60-63

"We are delighted to be partnering with M&G to lead a coalition of interested parties to develop a new approach to fight against housing poverty in the UK and across Europe.

By joining our efforts into resolving this crisis, we hope to bring more affordable homes for communities in need and to create new opportunities for businesses, local authorities and NGOs to collaborate."

Tum Kazunga
CEO at Habitat for Humanity Great Britain

Regulators

It's vitally important that we continue to maintain strong regulatory relationships – communicating openly, working collaboratively and providing the Financial Conduct Authority (FCA), Prudential Regulation Authority (PRA) and all our other global regulators with timely notification of issues.

We aim to approach our relationship with our regulators, as stakeholders, in an open and constructive manner at all times.

During the year, we worked hard to ensure we met both our regulatory obligations as an independent international business and the objectives of our policyholders, while at the same time continuing to support the real economy, particularly during the continued disruption from the COVID-19 pandemic.

There has been significant engagement from the Board and members of the Senior Executive team with our regulators on a range of key risks and areas of supervisory focus including culture, governance arrangements, management of conflicts of interest and control environment.

The Interim Chair and other Board members met separately with the supervisory teams at the PRA and FCA to discuss these focus areas.

The Board receives a report on regulatory matters from the Chief People and Corporate Affairs Officer, who has responsibility for regulatory relationships, at every Board meeting and all relevant regulatory correspondence is made available to the Board in a timely manner via a dedicated Reading Room.

The Board has held additional meetings over 2021 to discuss responses to specific regulator requests and recommendations.

Business partners

The Chief Risk Officer's (CRO) report to the Risk Committee provides a regular assessment of the key risks which the firm is exposed to against risk appetite. This includes Third Party Risk and will include assessment of any issues regarding third party suppliers and outsourcers.

M&G continues to rely on third party suppliers and outsourcers and the Board recognises the huge importance that they have in our operating model.

The Board is involved in key decisions relating to material outsourcer arrangements.

The Board also approves M&G plc's Modern Slavery statement which, given the nature of our business and our use of third parties, is focused on our efforts to detect and prevent modern slavery in our supply chain.

This provides the Board with oversight of the controls in place to manage an important risk in our supply chain.

Governance structure

This part of the report sets out the Board's corporate governance structures

Committee terms of reference
www.mandgplc.com/investors/shareholder-information/corporate-governance

Roles and responsibilities of the Board

Our governance structure is designed to support a clear understanding and delivery of our strategy. The Board has responsibility for the oversight, governance, direction, long-term sustainability and success of the business and affairs of M&G plc and is responsible to shareholders for creating and delivering sustainable shareholder value. The Board is also responsible for:

- approving the business strategy proposed by management, as well as setting our purpose, values, standards and culture and ensuring that these are aligned;
- oversight of effective risk management and internal control processes including a robust assessment of our emerging and principal risks;
- the approval of any changes relating to M&G plc's capital, corporate and/or listed structure; and
- oversight of the our ESG strategy.

In discharging its responsibilities the Board is supported by management and ensures a clear division of responsibilities between the Chair, the Chief Executive, the Senior Independent Director and the Non-Executive Directors. The Division of Responsibilities was considered and updated in December 2021 as part of annual terms of reference reviews.

The Board has delegated certain responsibilities to its Committees and, in compliance with the Code, has established an Audit Committee, a Nomination Committee and a Remuneration Committee. A separate Risk Committee has also been established. The Terms of Reference for each of the Board's Committees were most recently updated and approved by the Board on 14 December 2021 and are available to view on the Company's website.

The Committee Chairs are responsible for reporting to the Board on the Committees' activities.

In addition, all Non-Executive Directors have access to Audit and Risk Committee papers even if they are not members.

Board composition

The Board is comprised of six Directors: a Non-Executive Chair, one Executive Director, a Senior Independent Director and three Non-Executive Directors. Currently, Fiona Clutterbuck is Interim Chair as well as Interim Nomination Committee Chair. Clare Thompson is Interim Senior Independent Director and Audit Committee Chair. Clive Adamson and Clare Chapman are both Non-Executive Directors and chair the Risk Committee and Remuneration Committee respectively. From the AGM, we expect to have a Board of nine: our Chair, two Executive Directors (CEO and CFO), a Senior Independent Director and four Non-Executive Directors. The Board considers all its Non-Executive Directors to be independent and that it has complied with the requirements of the Code in relation to the balance of executive and independent Non-Executive Directors on the Board, and the composition of the Company's Audit Committee, Remuneration Committee and Nomination Committee.

Schedule of Matters Reserved for the Board and delegations

Matters and decisions that require Board approval are set out in a formal Schedule of Matters Reserved to the Board (last reviewed and updated on 14 December 2021). This includes approval of the Group's strategic aims, objectives and purpose and the annual Group financial budgets.

Other specific responsibilities are delegated to Board Committees which operate within clearly defined terms of reference approved by the Board. Day-to-day management of the business of the Group is delegated to the Chief Executive. Full details of the Schedule of Matters Reserved for decision by the Board and the responsibilities delegated to the Board Committees can be found under the Corporate Governance section of the Group's website.

The roles of the Chair and the Chief Executive

The roles of the Chair and the Chief Executive are clearly segregated. The division of responsibilities between them is set out in writing and was last updated by the Board on 14 December 2021.

The Chair leads the Board, facilitating engagement at meetings by drawing on members' skills, experience and knowledge, and is responsible for the Board's overall effectiveness and oversight of the management of the Company.

The Chief Executive is responsible for the proposal and delivery of strategy, the day-to-day management of M&G plc and for ensuring information is presented to the Board to enable it to make decisions effectively.

Directors' inductions, training and development

All new Board members are provided with a structured induction programme on appointment which includes an overview of all business areas as well as key functions.

Regular updates are given at each Board meeting on market and industry activities and legal and regulatory changes relevant to the business.

The Board holds an annual Strategy Offsite, next scheduled for June 2022.

In 2021, dedicated Directors' training sessions included sessions on Whistleblowing and Culture; Operational Resilience; Investments; Customer & Distribution Transformation; Governance; Conflicts of Interest; Solvency II ; ICF update and Combined Assurance Plan; With-Profits Actuary; IFRS 17; Briefing on BEIS consultation on audit reform and ESG Governance and reporting.

For each year, the Board plans training on a forward-looking basis, collecting feedback from Non-Executive Directors on topics of interest. The training schedule is available at every meeting for Board members to recommend any changes, and remains under review throughout the year.

Mandatory all employee training

To ensure the experience of Non-Executive Directors aligns with all employees, from 2021, all Non-Executive Directors in the Group take part in the same mandatory online training as colleagues. In 2021, this included sessions on Modern Slavery Awareness; Customer Vulnerability; Sustainability and M&G; We are M&G (Code of Conduct) and Information Security 2021. Board members receive formal papers a week ahead of each Board or Committee meeting, which enables them to make informed decisions on the issues under consideration.

In addition to formal Board meetings, the Chair maintains regular contact throughout the year with the Chief Executive, Chief Financial Officer and members of the Group Executive Committee to discuss specific issues.

The Company Secretary acts as an adviser to the Board on matters concerning governance and ensures compliance with Board procedures. All Directors had access to the Company Secretary's advice during 2021. Directors may also take independent professional advice at the Company's expense if required. In the event that any Director has concerns about the running of the Company, or a proposed action that cannot be resolved within the Board forum, these may be reflected in the Board minutes.

The Company Secretary circulates minutes of each Board meeting following the meeting for comment and approval to ensure an accurate record is captured.

Tenure, election, reappointment and removal of Directors

Directors are typically appointed by the Board and then put forward for election by shareholders at the subsequent AGM.

All Non-Executive Directors are appointed for initial terms of three years and may be terminated by either party upon six months' written notice or by shareholder vote at the AGM. The Non-Executive Directors do not have any entitlement to compensation if their office is terminated.

Full details of the remuneration of the Non-Executive Directors can be found on page 137 of this document in the Directors' Remuneration Report. More information about the appointment process for Directors can be found on page 108 of this document in the Nomination Committee Report. Further details of Executive Directors' service contracts can be found on page 158.

Group Governance Framework

Forums and documents

The Group has established a Group Governance Framework (GGF) which comprises three parts: (i) the forums we use to govern; (ii) how we make decisions and (iii) how we conduct ourselves. The forums and documents comprising the GGF are set out below:

Theme		Key Documents
The forums we use to govern	– The M&G plc Board and its Committees	– Listing Rules and Disclosure Guidance and Transparency Rules – UK Corporate Governance Code – Terms of Reference – Division of Responsibilities
	– Material Subsidiaries (PAC and MGG) and their Committees	– FCA Handbook – Supervisory Statement 5/16 – Material Subsidiary Corporate Governance Manual – Terms of Reference
	– Other regulated and non-regulated subsidiaries	– FCA Handbook (as applicable) – Subsidiary Corporate Governance Manual – Terms of Reference
	– Executive Committee and management committee structure	– Executive Governance Manual – Terms of Reference
How we make decisions	– Approvals and decision-making framework	– Delegated Authorities
How we conduct ourselves	– Code of Conduct, policies and ways of working	– Code of Conduct – Policies (MetricStream)

Governance review

At the end of 2020, the Board determined that it would be appropriate to examine the broader governance arrangements of M&G plc and its Material Subsidiaries and a review was commenced in late 2020, with conclusions finalised in April 2021. In summary, the review identified the following enhancements to governance which have been implemented during 2021:

- improving working with subsidiary boards and committees and putting in place additional direct oversight by the PLC Board of certain of its regulated subsidiaries.
- combining the meetings of MGG (a Material Subsidiary) with certain of our asset management operating companies to ensure efficiency and Non-Executive oversight of the operations of our investments business.
- further formalising the processes for Risk, Compliance, Internal Audit and Finance reporting from around the business to Group Audit and Risk Committees.

Subsidiaries

Independent Non-Executive Directors are appointed to the Boards of M&G plc's Material Subsidiaries: M&G Group Limited (MGG) and The Prudential Assurance Company Limited (PAC). Each of these entities has a Board of Directors led by an independent Chair and an Audit Committee and Risk Committee, comprised entirely of independent Non-Executive Directors.

The PAC Board also has a With-Profits Committee and an Independent Governance Committee, as required by regulation, which are also comprised of independent Non-Executive Directors. Dialogue between the Board, Audit and Risk Committee Chairs at Group level occurs on an ongoing basis with their counterparts in the Material Subsidiaries, to ensure an effective information flow and escalation of issues. The Boards and Committees of the Material Subsidiaries are also committed to the highest standards of governance and follow our internal policies, set out in a dedicated manual – the Material Subsidiary Corporate Governance Manual, which covers appointment of Directors, annual evaluation, and standards and delivery of Board materials. The governance arrangements for the Material Subsidiaries are overseen by the Nomination Committee.

A Subsidiary Corporate Governance Manual was established at the end of 2021 and is in the process of being embedded in order to align Board processes for our regulated entities which are not Material Subsidiaries.

Executive governance

We have established an Executive Governance framework comprising management committees aligned under the members of the Group Executive Committee. The Executive Governance framework supports the Executive Committee members and, as required, subsidiary boards within M&G plc, with specialist review and advice.

The Executive Committee oversees the Executive Governance framework and its processes are set out in a dedicated manual – the Executive Governance Manual.

Governance structure: roles and responsibilities

The diagram below sets out the roles and responsibilities of the Board members and the Company Secretary.

Chair

- leads the Board and is responsible for its overall effectiveness in oversight of the management of M&G plc
- sets the Board agenda which is primarily focused on delivering the M&G plc's strategic objectives and developments to its strategy
- draws out knowledge and experience from Non-Executive Directors
- shapes the culture in the Boardroom
- ensures that adequate time is available for discussion of these issues and that all Directors contribute effectively

Senior Independent Director

- works closely with the Chair, acting as a sounding board and providing support
- acts as an intermediary for other Directors as and when necessary
- is available to shareholders and other Non-Executive Directors to address any concerns or issues they feel have not been adequately dealt with through the usual channels of communication
- with the Non-Executive Directors, reviews the Chair's performance and carries out succession planning for the Chair's role
- attends sufficient meetings with major shareholders to obtain a balanced understanding of their issues and concerns

Non-Executive Directors

- provide constructive challenge, strategic guidance and specialist advice to hold management to account
- scrutinise and hold to account the performance of management and individual Executive Directors against performance objectives
- sit on various committees to provide challenge, guidance and direction on specific areas, and report back to the Board on these

The Board makes the Non-Executive Directors collectively responsible for engagement with the workforce. The Board specifically tested this through its Board evaluation and determined in 2021 that dedicated additional reporting on employee engagement should be collated in order that the Non-Executive Directors could monitor their work in this area more easily and ensure the right topics and populations were being covered.

Chief Executive

- leads the business, implements strategy and chairs the Executive Committee
- responsible for all operational and strategic management of M&G plc
- ensures management fulfils its obligations to the Board to provide information in an accurate and timely manner
- manages M&G plc's risk profile
- keeps the Chair informed of all material issues
- sets the vision for our culture, values and purpose

Chief Financial Officer

- reports directly to the Chief Executive
- has responsibility for the Finance function and its operations
- supports the Chief Executive in all aspects of financial reporting, investor engagement and business planning
- is a member of the Group Executive Committee

Clare Bousfield stepped down as CFO, and therefore from the Board, on 1 October 2021. Paul Cooper has since attended the Board as Interim CFO, but is not a member of the Board.

Company Secretary

- supports the Chair and Chief Executive in fulfilling their duties
- provides regular corporate governance updates on topics which may affect M&G plc or the Board
- available to all Directors for advice and support
- manages M&G plc's Secretariat function which provides administrative and governance support to the Board and its Committees
- is a member of the Group Executive Committee

Board Committees and Group Executive Committee

The Board has established an Audit Committee, a Nomination Committee, a Remuneration Committee and a Risk Committee. These Committees form the independent oversight element of the Group Governance Framework by the Non-Executive Directors. The terms of reference for each of the Board's Committees are documented formally, approved by the Board and updated as necessary. Each Committee Chair provides regular reports to the Board on the matters covered at each Committee meeting. Full details of each Committee's activities throughout the year are detailed on pages 108 to 123 in the Committee Reports. The Executive Committee is established by the Chief Executive and reports to him.

Nomination Committee

- overseeing the composition of the Board and its Committees
- assisted by HR, recruitment of new Board members
- succession planning for the Board and its Committees
- taking an active role, together with HR and other management, with respect to our diversity and inclusion strategy and associated objectives, including monitoring of their effectiveness

Audit Committee

- reviewing our financial statements, related announcements and other financial information provided to shareholders and other stakeholders
- reviewing the effectiveness of our system of internal financial controls and internal control systems and whistleblowing procedures
- overseeing the assurance and oversight of financial and ESG reporting
- monitoring and reviewing internal audit activities, reports and findings
- receiving and reviewing reports from our external auditors
- monitoring the effectiveness and independence of our external auditors and making recommendations to the Board in respect of their remuneration, appointment and dismissal

Risk Committee

- advising the Board on our emerging risks, risk strategy, risk policies, risk appetite and current risk exposures
- overseeing the implementation and maintenance of the overall Risk Management Framework (including the embedding of sustainability and ESG into this framework)
- overseeing our procedures for detecting fraud, preventing bribery and non-compliance
- reviewing our risk assessment processes and capability to identify and manage new risks

Remuneration Committee

- establishing, approving and maintaining the principles and framework of our remuneration policies and ensuring compliance with those policies
- determining the design, implementation and operation of remuneration arrangements for the Chair, the Executive Directors, members of senior management, and certain other individuals identified by relevant regulations

Executive Committee

The members of the Executive Committee are:

- Chief Executive (CEO)
- Chief Financial Officer (CFO)
- MD Asset Management and Chief Investment Officer
- MD Retail and Savings
- Chief Risk and Compliance Officer (CRCO)
- Chief Operating Officer (COO)
- Chief Customer and Innovation Officer (CCIO)
- General Counsel and Company Secretary
- Chief People and Corporate Affairs Officer
- Culture Lead

This Committee is established by the Chief Executive and has responsibility for the operational management of the business on a day-to-day basis.

The Committee leads on: the development and implementation of strategy, operational plans, policies, procedures and budgets; prioritisation and allocation of resources; and promotion of our culture and values.

The Committee reviews all material or strategic matters being proposed to the Board and approves certain levels of expenditure under M&G plc's delegated authority framework.

Changes to the Executive Committee structure in 2021 included the creation of the new MD roles for the Asset Management and Retail and Savings businesses. The Chief Human Resources and Director of Public Policy and Regulation retired at the end of 2021 and, as of 1 January 2022, the new combined role of Chief People and Corporate Affairs Officer was created as an Executive Committee member.

Board evaluation

2021 Review

At the end of 2021, the Board undertook a formal and rigorous internal evaluation of its performance, including that of its Committees, the Chair and individual Directors. The process included the circulation of a questionnaire to each Board member.

The results of the questionnaire were analysed and collated by the Chair and Company Secretary, with a report being produced and considered by all Board members in February 2022. The report formed the basis of a 2022 work plan, with action points for the year, summarised below. The Board will review progress against these action points throughout the year with a view to completing actions by February 2023.

The Chair also evaluated the performance of each Non-Executive Director by holding individual meetings, the outcome of which was reported to the Nomination Committee at its February 2022 meeting to support the proposed re-elections of Non-Executive Directors at the AGM.

Summary of findings

The report identified a number of strengths of the Board which included:

- A true mix of experience and skill on the Board;
- Good constructive challenge on most key issues;
- Robust debate;
- Board papers improving;
- Good progress having been made on culture and values topics;
- Compliance mechanisms having been generally effective; and
- The Business Planning process being very strong.

All Committees received high scores overall and minimal critical feedback. The Board identified areas of focus and related actions to enhance its performance. See summary table below:

Area of Focus	Action Point
Board Composition and Diversity	
– Enhancing skills on the Board, with focus on further areas of financial services expertise and gender diversity to be kept under consideration. – Audit Committee composition to be considered.	These observations will be specifically considered by the Nomination Committee as part of its regular succession planning cycles.
Strategy	
Working on greater linkage between the firm's purpose and strategy and allocating time to debating strategic options.	The CEO's Office and Group Strategy will lead on these points by articulating linkage between purpose and strategy for the Board's review; and preparing a programme of debate for the firms' annual Board Strategy Offsite.
Competitor/Consumer Information	
Enhance reporting and debate on market developments (consumer and competitor) through Board meetings or training.	The firm will create a programme of information on consumer and competitor market developments for delivery over 2022.
Relationships with the PRA/FCA	
The Board keeps an ongoing focus on strong, transparent regulatory relationships and making communication with the PRA and FCA as effective as possible.	Reports to each Board meeting to continue to include a standing item on regulatory affairs which will cover topics of regulatory focus.

2020 Closures

In our last Annual Report, we set out the feedback from the externally facilitated Board Performance and the actions we planned to take over 2021 to enhance performance. A summary of the 2021 action points and progress updates is set out in the table below:

Themes	Progress in 2021
1. Collaborative Engagement Developing Board and senior management relationships further, recognising the newness of the Company and Board members. Developing the engagement between our Board and the workforce and listening to their feedback to better understand the business.	Board dinners. Non-Executive mentoring of colleagues. Non-Executive Directors participation in colleague led Insight meetings. Enhanced Board reporting on employee engagement from September 2021.
2. Strong Regulatory Relationships Continuing to focus on strong, transparent regulatory relationships.	M&G plc Standard on "Maintaining an Open & Constructive Relationship with our Regulators" was put in place in April 2021. The Chair and the Non-Executive Directors have regular meetings with the regulators. The M&G plc CEO, CRO and Director of Public Policy and Regulation also regularly meet with both the FCA and PRA, as does the CFO with the PRA. Additionally, separate topic specific executive meetings (Strategy, Senior Manager Review, Culture, Risk and Compliance TOM, Annual results, COVID-19 impacts etc) were scheduled throughout the year. The 2021 Governance Review responded to feedback from the PRA and FCA.
3. Aligned Governance for Parent and Subsidiary Ensuring sequencing of PAC and MGG Board decision-making with M&G plc is optimal, that reporting on key issues from subsidiaries is addressed appropriately at M&G plc level and that clear delineation as to remit exists in terms of reference. Continue establishing clear governance paths for decision-making. Ensure composition of Boards remain appropriate for the business and board roles and responsibilities are clearly defined.	The sequencing of meetings was addressed for 2021 and will be continued for 2022 onwards. Roles of boards were considered as part of the Governance Review. Board paper preparation guidelines have been updated to include a requirement that governance pathways are included in papers. Risk agendas across PLC, PAC and MGG have been refined to address a clearer delineation of remits. Delegated authorities were reviewed and refreshed in September 2021. The 2021 Governance Review assessed the roles of Material Subsidiaries and sought and incorporated their input to ensure a collaborative approach. See more on page 103. Board compositions were reviewed and refreshed, in particular additional Non-Executives were added to the PAC and MGG Boards.
4. Board Papers Focusing on quality summaries; timeliness of papers and reducing duplication between Boards and Committees.	Non-Executive Directors were given the opportunity to comment on the Board Paper Preparation Guidelines which were re-issued in a refreshed form in March 2021. A training session on Board paper preparation for senior colleagues also took place in March 2021.
5. Strategy Dialogues Evolving the two-way dialogues between Non-Executive Directors and senior management on strategic topics.	Strategy engagement in 2021 included quarterly strategy updates to the Board, the annual Board Strategy Offsite meeting in June and included engagement with the Material Subsidiary Boards throughout the year. The 2021 Board Strategy Offsite was held over two days in June with the Strategy and Corporate Development team having conducted prior 1-2-1 interviews with Non-Executive Directors to help develop the Board Strategy Offsite agenda.
6. Constructive Meetings Ensuring meetings are efficient, constructive and challenging.	The Governance Review and Year End Evaluation both focused on the importance of making meetings constructive. The majority of 2021 Board meetings ended with a short feedback session on the meeting itself to ensure "real time" views could be quickly collated and fed into the next meeting.

Nomination Committee Report

Fiona Clutterbuck
Acting as Interim Committee Chair

Role and responsibilities of the Nomination Committee

The Committee is responsible for the composition of the Board and its Committees, together with succession planning. This ensures that the right skills are in place to support our strategic priorities and the long-term success and future viability of M&G plc. The Committee is also responsible for elements of Diversity and Inclusion (D&I) leadership.

The Nomination Committee's terms of reference
www.mandgplc.com

Membership and meeting attendance
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Areas of focus in 2021

- Chair succession
- CFO recruitment
- Non-Executive recruitment and skills building

Priorities for 2022

- Continuing build of Non-Executive skills base
- Executive talent and succession
- Diversity and inclusion
- Subsidiary governance

Dear Shareholder

As Interim Committee Chair, I'm pleased to report on the formal meetings of the Committee in 2021 and in particular on the ad hoc decisions throughout the year around Non-Executive appointments and our Chair succession.

With Mike Evans' decision to step down from the Board in April, this has been one of the Committee's main areas of focus throughout 2021 and we are delighted to have announced Edward Braham as our new Chair and the chairing of this Committee will also pass to him.

Cultural fit and skills to fit the business have been our watchwords as we consider the selection of Board members, with a view to setting the right tone from the top in how we go about our work and how our candidates represent and support our firm's culture.

We were pleased to announce in December 2021 that Dev Sanyal will join the Board in May 2022. Dev's experience in sustainable and bioenergy fills an important gap in the Board's skills.

Appointment process

The Committee has a duty to consider, and recommend to the Board the appointment of any Director of M&G plc. The Committee also has a duty to approve the appointment of the independent Chairs of its material subsidiaries, PAC and MGG, the processes for which are governed by the Material Subsidiary Corporate Governance Manual.

The appointment of a new Director begins with the identification of a vacancy or skills gap. The Committee assesses any skills required, arising either through vacancy or the evolving needs of the Board. We then work with HR to produce a clear role specification to focus recruitment activities.

Using the role specification, HR arranges external searches for Non-Executive roles and internal and external searches for Executive roles. The next stage is interviews, at which Committee members (among others) test the candidates' skills, including fit with culture.

If interviews are successful the Committee will make a recommendation to the Board covering skills, experience, time commitment and availability, diversity (ethnicity, gender and thought) and, in the case of Non-Executives, independence. The Board will make an initial consideration of the candidate and approve the appointment in principle, subject to regulatory approval. The final approval will be given by the Board following the regulatory approval, at which point the appointment becomes effective.

Board composition and succession planning

The Committee's primary role is to ensure that Board composition remains appropriate and to keep succession planning of both Executive and Non-Executive roles under ongoing review.

The Committee will also use learnings from the Board Evaluation process described on page 106 to ensure the right skills are in place.

Non-Executive Directors

The Board engaged external consultants Nurole, Egon Zehnder and MWM Consulting to assist in Non-Executive searches over the course of 2021. None of these firms has any connections with the Company or with individual Directors. The Committee addressed two Non-Executive vacancies during 2021.

Chair appointment

Mike Evans formally stepped down from his role as Chair of the Company on 1 April 2021 to concentrate on the recovery of his health and the Committee immediately commenced a search for a new Chair.

Together with the Chief HR Director, the Committee agreed a full job specification for the Chair role. In doing so, we considered the specific skills and experience required for a Chair, taking into account technical skills as well as interpersonal skills and considering breadth and relevance of experience.

External consultants, Egon Zehnder, were then instructed to carry out a search of external candidates. A number of meetings of the Committee were carried out to assess a shortlist of candidates, discuss feedback on meetings with candidates and then choose a preferred candidate.

Non-Executive Director appointment

Following our decision in late 2020 to commence a broader Non-Executive search, with a focus on diversity, in December we announced that Dev Sanyal would join the Board in May 2022.

In making the above appointments, the Committee refreshed its Skills Map twice during 2021 and again in early 2022. The Skills Map enables us to objectively identify and track the skills required by the Board and plan for both emergency and longer-term succession.

Committee membership was reviewed in February 2022.

Executive Directors – skills mapping and succession

On 13 September 2021, the Company announced that Clare Bousfield had been appointed as Managing Director of the Retail & Savings business and would hand over her responsibilities as CFO to Paul Cooper on an interim basis. We engaged external consultants Egon Zehnder to support John in the search for a new CFO.

The Committee spent time reviewing the skills and experience of the candidate pool. Interviews were then held with shortlisted candidates to ensure a correct fit for the Board following which the Committee unanimously agreed to recommend Kathryn McLeland as our new CFO and Executive Director of M&G plc with effect from May 2022 subject to regulatory approval and which was announced in January.

During August, September and October meetings, we spent time reviewing the feedback from John and our advisers, development plans, skills gaps to be addressed and strength of management succession.

Executive succession planning has been carried out collaboratively between Non-Executives and senior team members.

We're committed to developing talent internally as well as ensuring the market for all key roles is well understood.

Diversity and inclusion and gender balance

The Committee received an update on the progress made during 2021 on the Company's Diversity and Inclusion (D&I) Strategy including a focus on the diversity of the talent pipeline by expanding our internship programme with the #100 black interns and Change 100 programmes which specifically target the black and disabled communities respectively.

We were also updated on the measures being taken to expand and customise the well-being offering as well as the work underway to benchmark M&G's approach against its peers.

Our members particularly took time to consider the Company's D&I statistics given recent changes at Board level and how metrics could be compiled to monitor the pipeline in terms of the percentage of women in key operational roles, the data surrounding the return to work after maternity leave and the conversion rate, compared to men, of those appointed to pivotal roles.

Further details on M&G's approach to D&I and progress against targets can be found in the Sustainability section of the Strategic Report on pages 38 to 43.

The M&G plc D&I Policy can also be found on the website at www.mandgplc.com.

Details of the gender balance of the Board and senior management can be found on page 92 of the Governance Report.

Subsidiary governance

The Committee is responsible for the governance arrangements of its material subsidiaries: PAC and MGG. During the year, we reviewed the composition of the Material Subsidiary Boards and changes to them, ensuring that these continued to comply with regulatory requirements. We also kept the succession plans for the Material Subsidiary Boards under review. The performance and ongoing appointment of all Material Subsidiary Non-Executives is assessed and approved by the Committee in a process designed to mirror the annual election of Directors by shareholders at an AGM.

AGM

In early 2022, we carried out preparations for the AGM which will be held in May. We considered each of the Directors putting themselves forward for election, and satisfied ourselves that all aspects of performance, time commitment, skills and experience were appropriate to the Board's needs. We also considered the continuing independence of Non-Executive Directors. This work supported our recommendation to the Board that each currently serving Director be put forward for election or re-election at the 2022 AGM.

Committee evaluation

The Committee's evaluation took place as part of the main Board evaluation and the Committee was found to be operating effectively.

Fiona Clutterbuck
Acting as Interim Committee Chair

Audit Committee Report

Clare Thompson
Committee Chair

Role and responsibilities of the Audit Committee

The Committee's responsibilities include:

- Financial reporting: monitoring the integrity of the consolidated financial statements, related announcements and other financial information provided to shareholders and other stakeholders.
- Framework of internal control and risk management systems: reviewing and monitoring the adequacy and effectiveness of the Risk Management Framework and internal control systems, in conjunction with the Risk Committee.
- Internal and external audit processes: assessing the effectiveness and objectivity of both the internal and external audit process.
- Whistleblowing procedures: Overseeing the effectiveness of the whistleblowing programme.
- ESG reporting oversight and the development of assurance and oversight in relation to this reporting.

The Audit Committee's terms of reference can be found on the website at:

The Audit Committee's terms of reference
www.mandgplc.com

Membership and meeting attendance
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Areas of focus in 2021

The Audit Committee held nine meetings in 2021: six regular scheduled meetings and three meetings held jointly with the Board to recommend approval of the full year and half year results. There were also two meetings held jointly with the Risk Committee. The Committee met separately for training sessions on the BEIS consultation on corporate reporting and audit reform, IFRS 17 (new insurance accounting standard), ESG reporting and assurance, and for a briefing session on the Integrated Control Framework.

In addition, the Committee met individually with the heads of Internal Audit and Risk and Compliance, and the lead audit partner from KPMG without the presence of management. These private sessions are on a rolling programme, with the internal and external auditors each holding at least two of these private sessions a year.

Areas of focus included:

Business as usual activity:

- Reviewing and recommending to the Board of the full year and half year 2021 results
- Reviewing and recommending to the Board of Solvency II Pillar III reporting
- Approving key accounting and actuarial assumptions and methodology to be used in the half year and full year financial reporting
- Reviewing Solvency II balance sheet valuation methods and assumptions
- Monitoring the effectiveness of the Internal Audit function, approving the Internal Audit Charter and Internal Audit Plan
- Oversight of testing by Risk and Compliance teams
- Reviewing External Audit Strategy and Plan
- Consideration of audit findings reported on by the external auditor

Special business:

- Monitoring the progress on enhancements to the whistleblowing programme
- Reviewing the implementation of Integrated Control Framework
- Reviewing enhancements to controls over financial crime
- Reviewing and approving the Tax Strategy
- Reviewing and approving response to the BEIS consultation on corporate reporting and audit reform
- Monitoring Finance Change agenda including the adoption of IFRS 17
- Consolidating and harmonising of assurance reporting

The Committee also receives the following regular reports:

- Audit Committee reports from The Prudential Assurance Company Limited (PAC) and M&G Group Limited (MGG)
- Financial reporting including regulatory developments and approval of audit and non-audit work
- Risk & Compliance updates on testing activities
- Internal audit updates

Priorities for 2022

The Committee's main priorities for 2022 are as follows:

- oversee management's progress for the commencement of IFRS 17 which comes into effect on 1 January 2023
- approve IFRS 17 methodology and key judgements including the approach to defining adjusted operating profit under the new standard
- consider ESG reporting and assurance requirements
- continue to oversee the Group-wide Integrated Control Framework, focusing on management self-assessing and evidencing design and operating effectiveness of key controls
- finalise the external auditor handover process from KPMG to PwC, and ensure PwC's readiness, to take on this role
- maintain focus on the controls topics most relevant to our industry, in particular cyber security and financial crime

Dear Shareholder

Our Committee is first and foremost intent on ensuring robust and effective financial reporting. It has been pleasing to see that financial controls remain robust and that high quality financial reporting continues to be delivered. When assessing the quality of financial reporting, we've continued to consider how PAC and MGG approached assumptions and judgements in their separate financial statements.

Through our second line assurance responsibilities, we're ensuring that internal controls remain effective and that internal audit is providing strong third line assurance. The Integrated Control Framework is developing well and it's pleasing to see that the Risk function is continuing to strive for further improvements. The assurance planning for 2022 is being undertaken on a combined basis, across Internal Audit and Risk and Compliance, which will help to ensure that assurance work is efficiently and effectively delivered.

Last year we reported the conclusion of the audit tender exercise and we're looking forward to welcoming PwC as our external auditor from 1 January 2022, subject to shareholder approval at our AGM in May 2022. We would like to take this opportunity to thank KPMG for their diligent work as external auditor.

Our internal reporting network continued to work effectively and reports were introduced from IFDL in addition to those already received from the PAC and MGG Audit Committees. As Chair, I continue to have regular communication with the subsidiary company Audit Committee chairs, and this includes, establishing an annual plan and ensuring items that require approval at more than one Board or Committee are properly sequenced.

The forward agenda for 2022 includes a number of important new priorities, which are highlighted on page 110. The implementation of IFRS 17 will be a substantial project and the Committee will closely monitor developments in this area. ESG reporting will continue to develop and the Committee will be particularly focused on the assurance to support this reporting.

Finally, I'd like to thank Robin Lawther who stepped down from the Committee on 15 March 2021, and also take this opportunity to thank my fellow Committee members for their efforts and dedication over the year.

Clare Thompson
Committee Chair

Composition

The Board considers all members of the Committee to be independent and Clare Thompson to have recent and relevant experience of working with financial reporting and accounting matters. Details of the Committee membership including members' relevant skills and experience can be found on pages 88 and 89.

Financial Reporting 2021

The Audit Committee reviewed the full year 2021 consolidated and Company financial statements.

The review included:

Fair, balanced and understandable

In assessing whether the 2021 Annual Report and Accounts are fair, balanced and understandable and provide the information necessary for shareholders to assess M&G plc's position, the Audit Committee gave regard to:

- The information contained within the Strategic Report, in particular the Business and Financial Review, represents a fair reflection of performance during the year, and is consistent with the information contained within the financial statements.
- The significant issues identified in this report, including the key areas of judgement and estimation, as well as any other significant issues disclosed within the narrative reporting are consistent with the financial statements.
- The alternative performance measures, adjusted operating profit before tax and shareholder Solvency II coverage ratio, have been given equal prominence to the statutory measures of profit and capital, that there's a clear description of their calculation and an explanation of their use and relevance.
- The allocation of items to adjusted operating profit before tax was in line with the defined methodology, and was appropriately disclosed.
- The identified key performance measures reflect those used by management to manage, monitor and assess the results of the business, linking to the strategy.
- The key messages are clear, consistent, and easily understood without the use of excessive jargon.

Going concern and viability statements

In early 2022, the Committee reviewed the going concern assessment undertaken by management for the purposes of the 2021 consolidated financial statements.

This included assessing M&G plc's solvency, including its sensitivity to various economic stresses and its projections in a reasonable worst case scenario (including the ongoing impacts of COVID-19 on the global economy and a possible high inflationary environment); liquidity projections, including the impact of applying specific liquidity stresses; and ability to access funding sources.

Based on the review, we concluded that the going concern assumption remains appropriate.

In addition, the Committee considered the associated assessment of longer-term viability to support the Viability Statement. We considered the strategic and financial planning process to support the Viability Statement in conjunction with an assessment of M&G plc's key strategic priorities, business model and forecasting undertaken as part of the Business Plan. We challenged the assumptions underpinning the assessments, including the impact of various severe, but plausible stresses and scenarios on the ability to deliver the Business Plan, particularly in light of COVID-19, and concluded that the positions were both reasonable and supportable. In making this determination, we concluded that three years was the most appropriate period for longer-term viability in line with the M&G plc Business Plan.

Critical estimates and areas of judgement and how they were addressed

We have assessed whether suitable accounting policies have been adopted in the preparation of the consolidated financial statements. We've also considered all critical estimates and key judgements that are material to the preparation of the consolidated financial statements. In this regard, we receive regular updates from management and review and challenge estimates and judgements accordingly. This section outlines the critical estimates and key judgements that have been applied in the preparation of the consolidated financial statements and how each of them have been considered and addressed by the Committee.

Critical estimate/Key judgement	How the Committee addressed the issue
Valuation of insurance contract and defined benefit pension liabilities	We reviewed the key assumptions and judgements presented by management in the estimation and valuation of M&G plc's insurance contract and defined benefit pension liabilities. The key assumptions reviewed were: – Policyholder mortality, maintenance expenses and valuation rate of interest (including related credit risk assumptions) used in the estimation of insurance contract liabilities for annuities. – Allowance for maintenance expenses, persistency and other assumptions used in the estimation of insurance contract liabilities for policyholder liabilities other than annuities. – Mortality, inflation rates and discount rates used in the estimation of M&G plc's defined benefit pension liabilities. We considered the rationale provided by management for the assumptions used and reviewed any benchmarking provided. As part of the review, we continued to consider the reasonableness of these assumptions in light of ongoing impact of COVID-19 on mortality experience. We were satisfied that the assumptions adopted by management were appropriate. Further information on key assumptions can be found in Notes 26 and 33 of the consolidated financial statements in respect of the insurance contract liabilities and in Note 17 of the consolidated financial statements in respect of the defined benefit pension liabilities.
Valuation of complex and illiquid financial assets	We received information on the carrying value of investments held on the M&G plc balance sheet, and particularly focused on those investments where the determination of their fair value required more subjective estimation (classified as Level 3 under the fair value hierarchy). These assets include investment properties, lifetime mortgages, private credit and investments in private equity vehicles. In addition, we considered the governance arrangements put in place by management to review the valuation of these assets (including those held by the defined benefit pension schemes) to ensure that it remains appropriate. While reviewing the valuation, we also considered the potential impact of climate-related risk on relevant asset classes. Following review and challenge of the assumptions made, as well as the wider assessment of the remainder of M&G plc's assets, we satisfied ourselves that the basis of valuation for these assets was appropriate. Further information on key assumptions can be found in Note 32 of the consolidated financial statements.
Recoverable amount of goodwill	We reviewed the results of annual impairment testing carried out in respect of goodwill associated with MGG. This involved reviewing the key inputs used in the assessment, including the discount rate and future cash flow projections used to determine value in use for the investment in MGG. We considered the results of the work performed and confirmed the conclusion that no impairment was required in respect of goodwill. Further information on key assumptions can be found in Note 12 of the consolidated financial statements.
Provisions	We reviewed M&G plc's significant provisions, including those in respect of regulatory and conduct-related matters. We considered the key inputs used in measurement and the uncertainties surrounding the outcomes associated with the relevant provisions. Based on the review, we were satisfied that the level of provisioning adopted by management was appropriate. We also considered the release of the remaining provision in respect of annuity sales practices in the year to be appropriate. Further information on provisions can be found in Note 29 of the consolidated financial statements.

Critical estimate/Key judgement	How the Committee addressed the issue
Valuation of intangibles acquired at acquisition	We reviewed the value of the customer relationship intangible recorded as a result of the acquisition of a controlling stake in PPMSA. We considered the key assumptions used to determine the value at initial recognition, including discount rate and future cash flow projections. Based on the review, we were satisfied that the value of the intangible recorded at the acquisition date is appropriate. Further information on intangible assets can be found in Note 12 of the consolidated financial statements.
Other significant judgements	We reviewed and considered the other significant judgements as disclosed within Note 1.3 of the consolidated financial statements: – Consideration over M&G plc's interest in structured entities and whether control exists which would require their consolidation. – The judgement with respect to whether contracts issued by M&G plc contain significant insurance risk. Following review of the basis of the above judgements we were satisfied that these were appropriate.

We also considered the following critical estimates and key judgements in respect of the company financial statements.

Critical estimate/Key judgement	How the Committee addressed the issue
Recoverable amount of M&G Group Regulated Entity Holding Company Limited in the financial statements	Management performed an impairment assessment in advance of the year end in relation to the Company's investment in M&G Group Regulated Entity Holding Company Limited, which in turn is the holding company for M&G plc's main regulated entities, including MGG, PAC and IFDL. As a result the recoverable amount of M&G Group Regulated Entity Holding Company Limited has been determined by reference to the recoverable amount of these main operating subsidiaries. We considered management's assessment of the recoverable amounts based on discounted cash flow assessment, which was derived from management's expectations of profits in respect of MGG and IFDL and application of appropriate market multiples to relevant metrics for individual books of business in respect of PAC. Where possible, management also considered alternative valuation techniques consistent with established valuation principles to determine the recoverable amount. Based on the review, we concluded that there was sufficient evidence to support the view that no impairment was required.

Financial Reporting Council Letter

In November 2021, M&G plc received a request for information letter[i] from the Financial Reporting Council (FRC) in respect of our 2020 financial statements, requesting quantitative details of the significant unobservable inputs used to measure the fair value of assets held at level 3 in our fair value hierarchy.

The Committee reviewed management's response which provided the information requested for the 2020 financial year. In the 2021 financial statements this information has been provided in Note 32. We received a final response from the FRC in January 2022, confirming that their enquiries are now closed.

i The FRC's review is based on our Annual Report and Accounts and does not benefit from detailed knowledge of our business or an understanding of the underlying transactions entered into.

It is, however, conducted by staff of the FRC who have an understanding of the relevant legal and accounting framework. The FRC support continuous improvement in the quality of corporate reporting and recognise that those with more detailed knowledge of our business, including our Audit Committee and auditors, may have recommendations for future improvement, consideration of which they would encourage.

The letter provides no assurance that our report and accounts are correct in all material respects; the FRC's role is not to verify the information provided but to consider compliance with reporting requirements. Their letters are written on the basis that the FRC (which includes the FRC's officers, employees and agents) accepts no liability for reliance on them by the Company or any third party, including but not limited to investors and shareholders.

IFRS 17

IFRS 17: Insurance Contracts is a new accounting standard effective from 1 January 2023 which will have a significant impact on the financial reporting of our insurance contracts.

M&G plc has an ongoing project to implement IFRS 17 and we've received updates throughout the year on the progress of the project, including achievements to date, priorities for the remainder of the year, and key milestones into 2022.

The new standard requires a significant number of methodology decisions and implementation judgements. These began to be discussed with the Committee on a phased basis during 2021, on the understanding that they may need to be revisited as the methodology and implementation judgements develop and will be presented for approval during 2022.

Committee members have benefited from a number of training sessions to ensure that they have an appropriate level of knowledge about IFRS 17.

Sustainability reporting

Specific duties around ESG reporting oversight and development of assurance around ESG reporting were added to the Audit Committee's terms of reference in December 2021, reflecting current practice.

The Audit Committee has a responsibility to review, and challenge where necessary, the reporting in the Annual Report and Accounts and any other material public documents in respect of climate change and ESG matters for compliance with relevant regulations and legislation and standards, including but not limited to the climate-related financial disclosures required by the UK Listing Rules.

The Committee have received regular updates during 2021 on our planned ESG disclosures and have challenged, reviewed and approved these accordingly.

The Committee members also attended a training session on ESG reporting and assurance.

Audit and corporate governance reform

The Department of Business, Enterprise and Industrial Strategy launched a consultation on audit and corporate governance reform in March 2021. The consultation sought views on proposals to strengthen the UK's framework for major companies and the way they are audited.

The proposed reforms aim to restore public trust in the way that the UK's largest companies are run and scrutinised, ensuring that the UK's most significant corporate entities are governed responsibly, empower investors, creditors, workers, and other stakeholders by giving them access to reliable and meaningful information on a company's performance and keep the UK's legal frameworks for major businesses at the forefront of international best practice.

The Audit Committee reviewed the proposals within the consultation and submitted a response on behalf of M&G plc.

Our response confirmed that we understand the need for reform, and are supportive of the objectives on which the proposals are based. However, while we're largely supportive of the direction of travel, we highlighted that the implementation of any reforms should be proportionate, recognising that for financial services companies in particular, there are already a range of existing regulatory regimes in place which we believe largely function effectively.

Internal controls

The Group Risk Management Framework sets out the Audit Committee's responsibility for assisting the Board in fulfilling its oversight responsibilities by reviewing and monitoring the integrity of our financial reporting, including obligations for reviewing the effectiveness of our internal controls and risk management systems.

Our approach to risk culture is centred around the enterprise-wide programme of "I Am Managing Risk", which requires colleagues to take personal responsibility and accountability for identifying, assessing, managing and reporting risk and working together to do the right thing for our customers, clients, stakeholders and our business in line with our Code of Conduct. This approach to risk culture is supported by the Operational Risk Policy, Framework, Standards and associated training, which articulates how the business expects colleagues to positively manage risk. All colleagues have risk management accountabilities as part of their core objectives.

We receive regular reports regarding the status of the control environment, including reviews of the effectiveness of the Risk Management Framework, the status and assessment of any outstanding control deficiencies and results of internal testing of controls over financial reporting.

Effectiveness of risk management and internal controls

We carry out a formal evaluation of the systems of internal controls and risk management at least once a year. The Committee considered the outcome of the risk management and internal control effectiveness review for 2021 which covered all material controls, including financial, operational and compliance controls, and the continued impact of the COVID-19 pandemic on the control environment. The review identified a number of actions to further enhance the risk management system and strengthen the overall control environment, with a particular focus on continuing to embed both operational resilience and third party policy requirements across M&G plc. Enhancements to our Policy Framework identified in the previous year were delivered during 2021.

The Risk and Audit Committees at M&G plc and subsidiary levels collectively monitor outstanding actions and embed plans in these and other areas, and ensure sufficient resource and focus is in place to resolve such actions within a reasonable timeframe. We continue to receive regular reports enabling us to monitor outstanding issues, set parameters for reasonable closure and challenge management to resolve issues in a reasonable timeframe.

Whistleblowing policy and framework

M&G plc is committed to a safe and inclusive workplace where all colleagues can speak out and report inappropriate behaviour. The Board therefore recognises the need for our people to be able to raise concerns on any issue in complete confidence and without fear of retaliation. Our Whistleblowing policy includes details of the whistleblower protections we have in place across M&G plc, so anyone who does speak out feels safe and confident in doing so.

The Whistleblowing policy is supported by our Speak Out programme that includes different reporting channels, such as EthicsPoint which is a confidential reporting system provided by an independent external service provider. This system is managed by the Speak Out team who report directly to the Chief Risk and Compliance Officer. Governance and oversight of the programme is provided by the Whistleblowers' Champion who is Chair of the Audit Committee.

All whistleblowing cases are independently and confidentially investigated by Speak Out using specialist advisers as required. Formal reporting to the Audit Committee on the effectiveness of the policy occurs twice a year. Regular meetings are also held with the Whistleblowers' Champion to discuss and review cases and the programme. We're satisfied that the whistleblowing policies and procedures remain robust and adequate.

Internal Audit

The Committee has a responsibility to assess the effectiveness of the Internal Audit function and we again concluded that the function is effective. This section sets out the main monitoring activities that we considered in making our assessment.

The primary objective of Internal Audit is to provide independent and objective assurance to the Board and Executive Management regarding the adequacy of the design and effectiveness of the systems of internal control, including risk management, governance and operational processes. This helps them protect the assets, reputation and future sustainability of M&G plc.

The Audit Committee approved the Internal Audit Charter in October 2021, following an annual review to assess its continued validity in light of business developments, current Internal Audit professional standards and regulatory expectations.

The Chair of the Audit Committee is responsible for setting the objectives and reviewing the performance of the Group Head of Audit (GHA), Ian Robinson. The GHA is directly accountable to the Audit Committee and has unfettered access to both the Chairs of the Committee and the Board, as required, as well as Executive Management.

Internal Audit adopts a risk-based audit cycle of work. This is based on an assessment of the inherent risk, control environment, prior coverage, and a review of external factors such as emerging industry themes, strategy and Executive Management priorities.

The 2022 audit plan was approved by the Audit Committee in December 2021 and will be reviewed and updated as required to reflect evolving assurance requirements and priorities.

We receive regular briefings from Internal Audit throughout the year, and ask business owners to attend the Committee to explain actions being taken.

External Audit

Oversight and engagement of external auditor

KPMG has been the external auditor of M&G plc businesses since 1999, as part of the external audit of Prudential plc. The audit has been led for the second year by audit partner Stuart Crisp.

The Audit Committee provides clear guidance to KPMG on the Committee's expectations and held two meetings with KPMG, without management present, to give the audit team the opportunity to raise any concerns and remain independent and objective.

We reviewed the Company's Auditor Independence Policy (including the provision of non-audit services) in October 2021 and will continue to review the policy at least once a year.

The main purpose of the policy is to ensure that we don't engage the external auditor in any non-audit services that are not permitted, that we comply with all other relevant regulation and ethical guidance relating to relationships with the external auditor, and that we maintain a sufficient choice of appropriately qualified audit firms. Certain services need to be approved by the Committee in advance of any engagement.

The Committee reviewed the external audit plan before the start of the 2021 year end process.

External auditor effectiveness

Each year, the Committee, together with senior management, assesses the performance of the external auditor, monitors their independence and objectivity and the effectiveness of the audit process.

The assessment carried out in April 2021 considered topics including the quality of the resource, the overall approach and plan, the execution of the audit and the quality of communications received. We also considered whether the external auditor had appropriately challenged management's methodology and assumptions, key accounting policy judgements and exercised professional scepticism.

Following the review of external audit performance and effectiveness, we recommended a resolution to shareholders for the reappointment of KPMG as external auditors at the Annual General Meeting in May 2021.

Fees paid to the auditor

During the year ended 31 December 2021, the total fees paid to KPMG amounted to £12.2 million (2020: £12.1 million) of which £3.3 million (2020: £3.2 million) related to non-audit services. The total fee paid also includes £0.3 million (2020: £0.3 million) of fees incurred in relation to the audit of M&G plc's defined benefit pensions schemes. A breakdown of fees paid to KPMG is given in Note 8 of the consolidated financial statements.

All non-audit services described above were approved by the Committee as required in line with the Auditor Independence Policy discussed above. We were satisfied that, considering the fees paid and services provided under the policy, the objectivity and independence of KPMG was safeguarded.

Transition to new external auditor

The Audit Committee is responsible for conducting the process to select the external auditor and recommends their appointment, reappointment or removal to the Board for approval by our shareholders at each AGM.

As disclosed in last year's report, following a tender process in 2020, the Committee recommended, and the Board agreed, that PwC be appointed as the external auditor for the period commencing 1 January 2022, subject to shareholder approval at the AGM in 2022.

In line with the agreed transition process, PwC shadowed KPMG during their audit of M&G plc's 2021 Annual Report and Accounts, including attending some meetings alongside KPMG.

The Auditor Independence Policy has been applied to PwC from 1 December 2020, with non-audit services that are not permitted to be performed by our auditors being managed down during 2021 to ensure PwC's independence from 1 January 2022.

M&G plc has complied with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 for the year ended 31 December 2021.

Annual evaluation of Audit Committee performance

We carried out an evaluation of the Committee's effectiveness through an internal questionnaire which was circulated to each Committee member and regular attendees. The results of the questionnaire were analysed and collated by the Chair and Company Secretary, with a report being produced and considered by all Committee members in February 2022. Further details are included in the Board evaluation section of the Governance Report on page 106.

In Focus

Integrated Control Framework

One of the Audit Committee's priorities for 2021 was to continue to embed the Group-wide Integrated Control Framework (ICF), focusing on management self-assessing and evidencing design and operating effectiveness of key controls. During 2021, the Committee has overseen the implementation and embedding of the ICF, challenging regular progress updates provided by management and attending dedicated "out of Committee" deep dive sessions. As a principal component of the Group Risk Management Framework, the ICF has consolidated the previous multiple control frameworks into a single enterprise-wide control framework with a focus on key management, process and transactional level controls.

Target state

The future target state is a mature and embedded ICF across M&G plc, which delivers the linking of regulatory and policy requirements to risks, controls and Key Risk Indicators (KRI) and is assessed by proxy in Risk & Control Self Assessments (RCSAs), Key Control Assessments (KCA) and regularly monitored using Key Risk Indicators (KRI). Subsequently, when a Notifiable/ Operational Risk Event occurs the impact on control, policy and regulation can automatically be assessed in our Group-wide Governance, Risk and Compliance (GRC) tool.

Progress to date

A key objective in 2021 was to embed the ICF and GRC tool across all Business Areas so it becomes "the way we work" at M&G plc. With appropriate challenge and oversight from the Committee, significant progress has been made during 2021, including:

Risk Culture – Enhanced first line of defence ownership and accountability of risk and control matters, with open discussion about failures and subsequent learnings, sharing them widely so that other areas of our business can benefit, through the enterprise-wide risk culture programme "I Am Managing Risk".

Policy Framework – Policy Framework overhauled to simplify requirements and link to the ICF.

Assurance Issues – Increased focus on the timely and effective closure of assurance issues in order to minimise the number of issues going overdue.

Self-Identified Issues – The development of a culture of self-identified issues and logging them in the GRC tool, rather than assurance providers raising the majority of significant issues.

Risk & Control Self-Assessments – RCSA process further embedded including aligning all risks to the operational risk taxonomy and utilisation of the risk library.

Risk Acceptance – Increased governance, oversight and recording of risk acceptance decisions.

Controls – Identification and documentation of all key processes and controls that support the financial statements and bi-annual self-assessment of key controls has commenced.

Reporting – Implementation and enhancement of the automated risk reporting suite to support the visibility and management of risk.

Notifiable Events – Enhanced focus on the quality of input, including root cause analysis and creating issues and action plans, so that the cause can be understood and control improvements implemented to prevent similar events in the future.

Risk Appetite – Increased ownership, awareness and embedding of the plc, PAC and MGG risk appetite statements and KRIs.

Training and Support – Alongside a refreshed Operational Risk Framework, the introduction of a new suite of training tools and an Operational Risk Handbook to make risk simple and accessible for all colleagues.

Looking ahead

In 2022, the Committee will continue to oversee the further embedding of the risk appetite framework and the full implementation of revised and simplified policies across the business. We will challenge management to ensure they continue to build on the progress to date, including finalising the documentation of all key processes and controls supporting the business, and embedding management self-assessment of key controls.

Risk Committee Report

Clive Adamson
Committee Chair

Role and responsibilities of the Risk Committee

The Committee is responsible for assisting the Board in its oversight of risk, including but not limited to:

- Advising the Board on M&G plc's overall risk appetite, risk tolerances and risk strategy.
- Reviewing the Risk Management Framework and advising the Board on its overall effectiveness.
- Approving M&G plc's risk policies and/or recommending such approval to the Board.
- Providing input to the Audit Committee's review of effectiveness of the Integrated Control Framework.
- Reviewing the effectiveness of the Internal Model including stress testing.
- Reviewing the Own Risk and Solvency Assessment (ORSA) and overseeing the Internal Capital Adequacy Assessment Process (ICAAP) and ORSA processes in our subsidiaries.
- In conjunction with the Audit Committee, ensuring compliance with regulatory requirements.
- Advising the Remuneration Committee on risk and control issues that may impact remuneration strategy in any given year including adjustments to individual incentives.

The Risk Committee's terms of reference
www.mandgplc.com

Membership and meeting attendance
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Dear Shareholder

As you will see from our areas of focus, this year's risk agenda has covered a broad range of topics. Particular focus continued to be on COVID-19 and effort was dedicated to embedding sustainability and ESG into our Risk Management Framework. As Chair, I have been pleased to see the diligence taken by the Committee to understand these areas, whilst still successfully managing our other responsibilities.

In January, we welcomed Peter Grewal as Chief Risk & Resilience Officer. As we expected, Peter's contribution and impact has been significant, particularly in relation to the reorganisation of the Risk and Compliance functions and enhancements to the management reporting to the Committee.

As part of the reorganisation, Peter's responsibilities were amended and his title changed to Chief Risk & Compliance Officer.

The Committee has been pleased to see further concerted effort over the year to enhance the control environment across the business. We are encouraged by the progress made, but acknowledge there is still further work required in 2022.

As a Committee, we continued with regular deep dives on key matters, as we want to support the business by monitoring the risks where it matters most. We particularly value these sessions as they allow us to meet more of the senior team around the Group and see first hand some of the day-to-day challenge between the first and second lines of defence.

Deep dives over 2021 included: Technology Transformation; Investments (Cash & Currency); Reputational Risk; Finance (Reporting & Operations); and Operational Resilience.

Given the Group's ongoing transformation initiatives, the Committee closely monitored the management of change risk across the business with regular updates from both the first and second lines of defence.

As mentioned earlier, a key priority for 2021 was embedding sustainability and ESG into all aspects of our Risk Management Framework. We expect this will be an area that will require further development and refinement in 2022 and beyond.

The Committee continues to work closely with the Audit and Remuneration Committees, and the cross-membership principles that we follow ensure conflicts are managed and all Non-Executives have the right information provided in the most efficient way. I have continued my role as Chair of the Risk Committee of PAC, which allows me a wider oversight of risk issues in the Group.

My thanks go to Robin Lawther who stepped down from the Committee on 15 March 2021. We welcomed Clare Chapman to the Committee on the same date.

Clive Adamson
Committee Chair

Review of current and emerging risks

The Committee is responsible for reviewing the Risk Management Framework, further details of which can be found on pages 70 to 83, together with a list of M&G plc's principal risks and how those risks are identified, managed and mitigated. We're satisfied that our review, and subsequent reporting to the Board, enabled the Board to carry out a robust assessment of M&G plc's emerging and principal risks.

Chief Risk & Compliance Officer

The Chief Risk & Compliance Officer (CRCO) has responsibility for the risk function and all compliance matters, and is a standing attendee at all meetings. Our CRCO ensures written reports are provided to the Committee covering key risk matters and compliance reporting.

The Chief Risk & Compliance Officer is also available to the Committee for consultation regarding any other agenda item.

Areas of focus in 2021

The Risk Committee held seven meetings during 2021: five regular scheduled meetings and two held jointly with the Audit Committee.

Risk appetite, tolerance, profile and strategy

We've reviewed regular reports from the Chief Risk & Compliance Officer (CRCO) including updates on the risk profile, key risks and issues facing M&G plc, emerging risks, M&G plc's capital and liquidity position against appetite, the control environment, and operational risks including customer, change and regulatory risks. We also received regular reports from subsidiary Board Risk Committees.

During 2021 the COVID-19 pandemic has continued to impact M&G plc and remained a key focus area of the Committee. We closely monitored heightened and emerging risks as a result of COVID-19. This included reviewing and recommending to the Board a range of economic scenarios for business planning purposes, including high inflation.

Sustainability and Environmental Social Governance (ESG) risk has also been a key area of focus. During 2021, we approved an ESG Risk Management Framework and Policy which defines M&G plc's approach to risk management in this evolving area. In addition, we oversaw the Bank of England's 2021 Climate Biennial Exploratory Scenario (CBES) exercise which analysed the financial risks related to climate change. We also reviewed a subset of the required scenarios on a full balance sheet basis as part of the Own Risk and Solvency Assessment (ORSA).

We regularly reviewed and provided advice to the Board on how the assessment and analysis of the principal financial and non-financial risks facing M&G plc were being managed. We were also provided with detailed "deep-dive" reviews and presentations from executives on key risks under their management, including LIBOR, reputational risk, and aggregate risk and control assessment reporting from Investments and Finance. In addition, we received regular updates on business transformation activities and key programmes including the enhancement of operational resilience capabilities across M&G plc.

Risk Management Framework and internal controls

As part of our annual review of the Risk Management Framework, we approved changes to it and the risk policies, as well as a revised risk taxonomy. We reviewed and recommended updates to M&G plc's financial risk appetite and individual risk limits to the Board for approval.

We also received regular updates on the progress of the Risk Management Framework and Function review. This review was initiated by the new CRCO at the beginning of 2021 to embed a further step change in risk understanding, awareness and accountability across the organisation.

In conjunction with the Audit Committee, we oversaw the continued implementation and embedding of the Integrated Control Framework. Further detail is provided in the Audit Committee Report.

Risk models and measures

In conjunction with the Audit Committee, we reviewed and approved the overall methodology and key assumptions for the Solvency II valuation, and reviewed the overall effectiveness of the M&G plc Internal Model by reviewing and approving the results of the annual programme of Solvency II Internal Model validation. We also approved the Internal Model validation plan for the forthcoming year.

We approved changes to the approach to economic capital across M&G plc, placing more focus on risks where the one-year time horizon under the Solvency II framework doesn't sufficiently support the risk and capital management of the specific risk requiring a multi-year view (e.g. climate change).

Regulatory matters

We reviewed the M&G plc ORSA and recommended its approval to the Board. In conjunction with the Audit Committee, we also reviewed regulatory and public Solvency II disclosures and recommended them to the Board for approval. In addition, we received updates on emerging regulations, regulatory risks and other regulatory matters arising during the year.

Compliance and fraud

We reviewed and approved updates to a number of policies including those relating to regulatory compliance risk, tax risk, privacy and data protection, conduct risk, market abuse and financial crime compliance.

In conjunction with the Audit Committee, we also oversaw the continued Financial Crime Compliance Transformation Programme with an objective to enhance the mitigation and management of Financial Crime risk.

Remuneration

We advised the Remuneration Committee on risk management considerations to be applied to the Remuneration Policy and performance measures including risk adjustments to the incentive pool and individual incentive packages.

Annual evaluation of Risk Committee performance

We review the effectiveness of the Committee annually using an internal questionnaire which is circulated to each Committee member. The results of the questionnaire were analysed and collated by the Chair and Company Secretary, with a report being produced and considered by all Committee members in February 2022. Outcomes arising from the report will contribute to the 2022 work plan. We will review progress against these throughout the year.

Priorities for 2022

The Committee's main priorities for 2022 are as follows:

- Monitor the ongoing impact of COVID-19 on our risk profile in both the short and longer term
- Continue to review and embed sustainability and ESG into our Risk Management Framework
- Maintain focus on the risk areas most relevant to our industry, including both financial and operational resilience
- Oversee the maintenance of a supportive risk culture across the Group
- Oversee the continued embedding of the Group's Risk Management Framework, in particular in relation to operational risk

Details of Committee members' relevant skills and experience are shown in the Governance report on pages 88 to 89.

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Statement of implementation of the Remuneration Policy in 2022
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Directors' Remuneration Report

Clare Chapman
Committee Chair

Role and responsibilities of the Remuneration Committee

Deciding the framework of the remuneration policies: establishing, approving and maintaining the principles and framework of the remuneration policies and arrangements for the Group.

Determining the design, implementation and operation of remuneration arrangements for the Chair of the Board, the Executive Directors, Group Executive Committee, individuals identified as Solvency II staff and Material Risk Takers under remuneration regulations that apply to the Group and overseeing remuneration for individuals whose total remuneration exceeds an amount determined by the Committee from time to time.

The Remuneration Committee's terms of reference
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Dear Shareholder

On behalf of the Board and its Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2021, my first since joining the Board on 15 March 2021. This is our third report following our listing on the London Stock Exchange as a FTSE 100 company on 21 October 2019, and second full year under our Directors' Remuneration Policy, approved by shareholders on 27 May 2020.

Performance delivered in 2021

We have delivered another robust performance in 2021. We have achieved all of our major demerger commitments and in some cases have delivered them ahead of schedule. We have also made good progress towards pivoting the entire business towards sustainability. We are directing more of our customer and client assets into sustainable and impact propositions, both by launching new and transitioning existing ones.

Our financial results demonstrate our consistent strength in proactively and efficiently managing our balance sheet and our diversified sources of earnings from being an asset owner and asset manager. Our Asset Management business financial performance was stabilised during the year following a reduction in net client outflows from the retail asset management business as we reposition the business for sustainable growth and continued strong net client inflows from our institutional asset management business. Our Retail and Savings business financial performance was impacted by our Wealth business experiencing increased competitive pressure due to consolidation in the market and the move to digital post COVID-19. However, the Wealth business did benefit from higher shareholder transfers from PruFund due to upwards unit price adjustments as the financial markets improved. The Heritage business produced stable results slightly impacted by a lower benefit from management actions including longevity assumption changes.

Financial Performance in 2021

Adjusted operating profit before tax (including restructuring costs) is above the maximum performance level, reflecting the benefits of our diversified earnings from being an asset manager and asset owner. We earned a higher than planned margin on our annuity business due to favourable benefits from longevity and expense assumption changes, which offset lower than expected operating profit before tax from our Asset Management business.

We also spent less on our transformation activities in 2021 than planned due to reprioritisation as we continually balanced the benefits with the costs to achieve. The reprioritisation of the activities also led to the rephasing of benefits realisation.

Total capital generation (excluding market movements) is also above the maximum performance level, demonstrating our continued focus on delivery of management actions to protect the balance sheet. We delivered higher than planned management actions, including the release of the counterparty credit risk overlay following the Part VII transfer to Rothesay Life PLC and a release of capital due to a Major Model Change approved by the PRA.

There was a reduction in the With-Profits Fund's per policy renewal expenses to above target performance level, due to spending less on transformation activities than planned in 2021. New business expenses were below threshold due to pressure on client inflows from increased competition following consolidation in the market and shift to digital post COVID-19.

With-Profits Fund investment performance outperformed the benchmark demonstrating the benefit

Remuneration Chair statement

to policyholders of the strength and diversification of the Fund's investment approach, although the outcome was slightly below our target. 84% of institutional funds outperformed their benchmark/objective to deliver a maximum outcome, whilst improving retail investment performance resulted in an outcome above the threshold requirement.

Non-financial performance

We made great strides in digital enablement during the year as we increased the breadth and quality of our range of digital services for customers across multiple brands to deliver an outcome just below maximum. This included changes to support vulnerable customers, and making financial guidance and advice more accessible. NPS and Complaints deteriorated through 2021 as a result of service level disruption from operational changes to modernise the business, which were exacerbated by lockdown restrictions. This resulted in both measures being below threshold. We have implemented a plan to return service levels to those expected by our customers, and new complaint volumes are now starting to fall.

Every year, our One Voice employee opinion survey tracks what our people think of life at M&G, showing us what we are getting right and where we can improve. Despite the enormous challenges of the last 12 months, our engagement scores largely stabilised relative to 2020. Sustainable Engagement was again positive at 75%, albeit lower than the 2020 outcome, resulting in threshold performance. The continued impact of organisational and transformational change on the workforce was a key factor in 2021 results, as was our approach to both the COVID-19 pandemic and future ways of working.

Following work undertaken in 2020, the culture programme remained a key priority in 2021, with a focus on embedding our culture through the induction process and sessions for our current employees and managers, as well as the implementation and continuing refinement of a culture dashboard. Initiatives such as our annual employee opinion survey, town hall events, the colleague forum, Q&A sessions with leaders and a culture diagnostic exercise have all helped to shape the next phase of work for our culture programme.

The 75% outcome reflects the significant progress that has been made, but there is still much to do.

In addition we remained on track to meet our 2025 strategic diversity objective to have 40% female representation within the leadership team by achieving 35% female representation at the end of 2021, well above the 30% target set in our 2019 LTIP scorecard.

Significant progress has been made in creating and embedding the Integrated Control Framework and Group Risk and Compliance tools which have resulted in improving trends in the risk and control environment. This includes reducing the number of overdue high and very high assurance issues, increasing the proportion of self-identified issues and general improvements to the RCSA process, although the proportion of high/very high issues overdue did not meet the threshold performance requirement in 2021. There will be continued focus to deliver the future target state of a mature and embedded control framework across the business in 2022.

The performance indicators driving the outcomes of the incentive plans vesting at the end of 2021 were as follows:

The 2021 Short-Term Incentive (STI) delivered an outcome of 70.15% of maximum opportunity for both Executive Directors (compared to an outcome of 59.4% in 2020). The outcome was the result of the following performance:

	Measure	Performance	Vesting (Max)
Financial Measures	– Adjusted operating profit, including restructuring costs	£575m – above maximum	54.1% (60%)
	– Total capital generation, excluding market movements	£905m – above maximum	
	– With-Profits renewal expense per policy	£90 – above target	
	– With-Profits new business expense	2.49% – below threshold	
Investment Performance	– With-Profits Fund (versus benchmark)	0.29% – above threshold	3.6% (10%)
	– Institutional (above benchmark)	84.5% – above maximum	
	– Retail (above benchmark)	53.1% – above threshold	
Customer Outcomes	– Digital enablement	35.7% – above target	3.0% (10%)
	– NPS	3 – below threshold	
	– Customer complaints	4.4 – below threshold	
People Measures	– Sustainable engagement	75% – at threshold	3.8% (10%)
	– Culture programme	75% – above target	
Risk & Controls	– % high/very high issues overdue	18% – below threshold	5.6% (10%)
	– Proportion self-identified issues of total	68% – above target	
	– % RCSA overdue	0.39% – above maximum	

The 2019 Long-Term Incentive Plan (LTIP) awards covered the period 2019 to 2021 and will vest at 52.6% for the Chief Executive and 41.3% for the Chief Financial Officer (compared to the 2018 LTIP vesting of 59.6% and 82.4% in 2020). The difference in outcomes for the Executive Directors is a result of the different performance measures in their LTIP scorecards, which reflected their roles within the Prudential plc group at the time of grant.

	Measure	Performance	Vesting (Max)
Chief Executive	– Total shareholder return (TSR)	55th percentile – above threshold	27.6% (75%)
	Sustainability Scorecard: – Total capital generation – Diversity – Conduct/culture/governance	 £4,326m – above maximum 35% – above maximum Full achievement – maximum outcome	25% (25%)
Chief Financial Officer	– Adjusted operating profit including restructuring costs	£2,294.5m – above threshold	21.3% (80%)
	Sustainability Scorecard: – Total capital generation – Diversity – Conduct/culture/governance	 £4,326m – above maximum 35% – above maximum Full achievement – maximum outcome	20% (20%)

The primary measure for the Chief Executive was relative TSR, with a 75% weighting. Prior to demerger in October 2019, Prudential plc TSR was below the median of the peer group, however M&G plc TSR performance was materially above the median for the remaining period to 31 December 2021. This resulted in combined performance at the 55th percentile, above the threshold.

The primary measure for the Chief Financial Officer was adjusted operating profit (including restructuring costs), with an 80% weighting. The Committee acknowledged that this was a very stretching target as it was based on a business plan determined and adopted in late 2018 prior to the planning for the demerger of the business from Prudential plc. It therefore did not make a provision for a number of additional costs that were to be incurred by the business as a result of the demerger. These costs were identified and incorporated into a subsequent business plan adopted in 2019 that was more reflective of the goals and strategic direction of M&G as a separate listed entity.

Following a thorough review of the two business plans to determine which elements of the original business plan had specifically changed purely as a result of the demerger, the Committee concluded that a downward adjustment of £171.6m (6.3%) to the profit target would be appropriate to avoid an unfair disadvantage for LTIP participants with this measure. This adjustment resulted in 26.7% of the profit measure component of the scorecard vesting and increased the overall outcome of the LTIP awards for the Chief Financial Officer (and other participants in the relevant LTIP) from 20% to 41.3% of maximum.

The Committee does not take the decision to amend incentive performance conditions lightly, and would only do so in truly exceptional circumstances. However, it is satisfied that this adjustment is reasonable in the context of performance delivered over the period and that it delivered a fair and proportionate outcome for participants, including Clare Bousfield, who was the Chief Financial Officer, but stepped down from the Board with effect from 1 October 2021 to assume the role of Managing Director of our Retail and Savings business

It was also satisfied that the rationale to amend performance conditions met the requirements of the Directors' Remuneration Policy and relevant scheme rules, in that there had been a material change in circumstances from when the original targets had been established and that the amended condition was not materially less challenging to achieve.

We would also like to thank the shareholders with whom we consulted with regards to the proposed adjustment for their views.

Further details of the adjustment applied and its impact on the outcome of the award are provided in the main section of the report.

The remainder of each award comprised a balanced scorecard of capital generation, diversity and conduct measures. Capital generation and diversity both performed above the maximum levels. The Committee took consideration of a report from the Chief Risk and Compliance Officer, with oversight and approval from the Risk Committee, in respect of the conduct/culture measure.

This confirmed that there were no significant capital add-ons or material fines during the performance period requiring a reduction to the outcome.

In determining the appropriateness of the 2021 variable incentive outcomes, the Committee also considered a number of factors, including the experience for M&G's shareholders, for whom TSR returns were above the FTSE 100 Index and the median of the FTSE 100 Financial Services peer group over the period; the experience of M&G's employees in terms of the alignment of remuneration outcomes and continuing focus on inclusion and well-being initiatives; and the risk and conduct performance of the business, taking consideration of a report from the Risk Committee and Chief Risk and Compliance Officer.

Taking all of the above into consideration, including the adjustment made to the Adjusted Operating Profit target, the Committee considered the outcomes of the 2021 incentives for Executive Directors to be appropriate. Further details of the incentive schemes and outcomes are provided in the single figure section of the report.

Consideration of pay and conditions across the wider workforce

The Committee takes careful consideration of pay and conditions for the wider workforce in the normal course of its duties. This is also a key input when determining salary reviews and incentive outcomes for the Executive Directors. The key indicators considered by the Committee as part of its 2021 year-end decision making included:

- The Chief Executive Total Remuneration Ratio, which was 52:1 in 2021 at median (compared to 45:1 in 2020 and 58:1 in 2019);
- The year-on-year percentage change in incentive and total remuneration outcomes for 2021 for the Executive Directors were significantly lower than the increases for the average employee; and
- The salary increase budget of 4% in 2022 across the UK workforce, which was split to a 4.25% budget for the majority of the workforce and 3% for those in more senior management positions.

These indicators gave the Committee assurance that the incentive outcomes and trends in total remuneration for the Executive Directors were fair and reasonable when compared to wider workforce experience over the period, noting that outputs such as the Chief Executive pay ratio would be subject to some volatility over a period where restructuring, including acquisition activity, impacts the demographics of our wider workforce.

Diversity and inclusion is one of our two strategic sustainability priorities, along with climate change. In July 2021, we were proud to become the first business in our sector to publish pay gap data inclusive of ethnicity for both 2020 and 2021, providing greater transparency to the commitments made in our diversity and inclusion strategy. We are committed to achieving year-on-year improvement in the representation of gender and ethnicity in senior leadership roles with goals of 40% women and 20% ethnicity by 2025. While we recognise that there remains significant work to do, we are pleased to report good progress and a positive year-on-year improvement in both gender and ethnicity pay gaps.

Change in Chief Financial Officer and plc Board Chair positions

Clare Bousfield stepped down from the Board with effect from 1 October 2021 and transitioned into the role of Managing Director of our Retail & Savings business, for which Clare continued to receive salary and benefits reflective of her new role. Clare's 2021 bonus and 2019 LTIP awards shown within this report reflect her period of service as Chief Financial Officer up until 1 October 2021. There are no other awards or payments connected with Clare stepping down from the Board.

In January we announced the appointment of Kathryn McLeland as Chief Financial Officer and that she would be joining M&G plc in May, subject to regulatory approval. Kathryn will receive a base salary of £580,000 (4% higher than the package that applied to Clare Bousfield in 2021), standard pension in line with the wider workforce and maximum incentive opportunity in line with her predecessor in the role, 225% of base salary for both the STI and LTIP awards. Kathryn's 2022 STI will be pro-rated to the May 2022 start date. There are no other awards or payments connected with Kathryn's appointment.

We were also delighted to announce our new Board Chair on 24 February 2022. As explained in the implementation section of the report, the fee that will apply from Edward Braham's appointment date of 14 March 2022 will be £525,000 per annum (compared to £450,000 per annum for the previous Chair). In line with the Policy, private healthcare will also be provided for himself and his spouse/partner.

Taking consideration of external benchmarking and independent advice, the Committee is satisfied that these packages are appropriate for the significant strengths and experience that Kathryn and Edward will bring to these roles. The Committee was also mindful of the anticipated time commitment for the Chair and that this fee had not been reviewed since the previous incumbent had been appointed in 2018. Full details of the packages are provided on pages 144 and 146.

Implementation of the policy in 2022

Fixed Remuneration

The Committee approved a salary increase of 3% for the Chief Executive in 2022. This was the first increase to apply since the package was reviewed in 2019 in anticipation of the demerger from Prudential plc. The Committee considered external market benchmark data and the experience of the wider workforce, for whom a 4% budget was operated in 2022.

As indicated in the 2020 report, the Chief Executive consulted with the Committee on a review of his car/driver benefit during 2021. The review was completed and an alternative outsourced driver service implemented from 1 July 2021. As is evidenced by our 2021 single figure disclosure, this review has resulted in a significant reduction in the cost of the benefit. The full-year reduction in costs will be recognised in 2022.

Incentive plan measures for 2022

Following a number of changes to the incentive plan scorecard measures in 2021, there will only be minor changes applied in 2022. The Committee carefully considered how effectively the scorecards aligned to our strategic priorities and key focus areas. Further details on this alignment is provided in the "Rationale for measures and link to strategy" section of this report.

In determining the 2022 incentive scorecards, we have again sought to ensure that all underlying measures have clear and transparent targets and performance tracking methodology, aligned to key priorities for the Company.

The 2022 STI scorecard will continue to have:

- 70% financial weighting with measures aligned to profit, capital generation, With-Profits Fund expense management and investment performance, with no change to their respective weightings; and
- 30% non-financial weighting with measures aligned to customer and people outcomes and risk/controls, equally weighted at 10%.

The underlying non-financial measures will directly align with our 2022 priorities to improve the quality of customer service, continue to strengthen our culture and respond to colleague feedback, and further embed the focus on the timely and effective closure of assurance issues and a culture of self-identifying issues.

There are no changes to the 2022 LTIP scorecard, which will continue to have:

- 75% financial weighting (including TSR) comprising Operating Capital Generation (50%) and TSR ranking within a peer group of FTSE 100 financial services companies (25%); and
- 25% non-financial weighting with measures aligned to Risk and Conduct, Diversity and Sustainability.

In 2021 we reported that we were changing the capital measure from total capital generation to operating capital generation. The Committee concluded that it is appropriate to retain operating capital generation in the 2022 LTIP as it provides continuity of target setting, aligns with our external targets and is reflective of performance that is within management's control to deliver.

ESG is central to our strategic priorities and we have therefore retained the same non-financial measures with updated targets to the end of 2024 that align with the progress required to achieve our 2025 diversity target of 40% and net zero carbon emissions for our own operations by 2030.

As indicated in our previous report, new regulatory requirements under the Investment Firms Prudential Regime will apply to the Company from 1 January 2022. As anticipated, the regulations have not required us to make any immediate changes to the operation of the Policy for the Executive Directors. The Committee will keep this position under review as the regime has different tiers of requirements that may become applicable to the Company in the future.

Looking ahead

Our Directors' Remuneration Policy is scheduled for renewal and shareholder vote at the 2023 AGM. The Committee will carefully consider how the policy and its implementation may need to be refined to ensure we have appropriate alignment to our strategic priorities and the purpose, values and behaviours that underpin One M&G. Simplicity and transparency of design and outcomes will also be a key focus of the review.

We will complete this review during 2022 and are committed to a full and transparent consultation with our regulators and shareholders on any changes and will take full consideration of feedback received before finalising the proposals.

To close, the Committee was happy with the level of shareholder support at the 2021 AGM, with a 93.6% vote in favour of our 2020 remuneration report. On behalf of the Remuneration Committee, I would like to thank you again and look forward to your continued support at the upcoming AGM.

Clare Chapman
Remuneration Committee Chair

Remuneration at a glance

This section provides an overview of the remuneration outcomes for our Executive Directors in 2021, the Directors' Remuneration Policy and implementation decisions for 2022. Through our implementation and operation of the policy we ensure that:

Clarity	Remuneration packages are appropriately positioned relative to the scope and complexity of the roles and relevant market benchmarks to attract, retain and motivate executives with the required skills and experience to deliver our strategic objectives;
Simplicity	Simple and transparent incentives provide clear alignment of objectives and performance with our financial and non-financial strategic priorities;
Risk	A strong focus on adherence to our risk management policies and appetite limits to ensure performance is delivered in the long-term interests of the Company, customers and shareholders;
Predictability	Balancing the interest of shareholders and customers through the combination of performance measures adopted in the incentive schemes that mitigate the risk of conflicts of interest; Strong alignment between remuneration and the long-term interests of the Company through a significant proportion of executive packages being delivered in shares for three to five years, a shareholding requirement policy and two-year post-employment shareholding requirement policy;
Aligned to our purpose, culture and values	Key focus on positive customer outcomes and quality of customer engagement; Support for the Group's purpose and values to build a safe, respectful and inclusive culture through remuneration policies and schemes that promote and reward good conduct and behaviours for the benefit of our customers and colleagues; and Promotion of a positive culture for employees and customers with demonstrable alignment to remuneration outcomes where our standards for conduct and behaviours are not met, including a robust individual performance assessment process and malus and clawback policy.

Overview of the Directors' Remuneration Policy

The following chart shows the operation of the key elements of our Directors' Remuneration Policy approved by shareholders at our 2020 AGM. Summary details of the Policy are provided in the next section (all amounts in £'000). The charts detail the remuneration arrangements proposed for our incoming Chief Financial Officer, Kathryn McLeland.

Total Target
Chief Executive:
£3,961
Chief Financial Officer:
£2,010

Total Max
Chief Executive:
£6,405
Chief Financial Officer:
£3,274

Note: the maximum 'exceptional' (only to be used in year of hire) **LTIP award is 400%**

Target

LTIP
Chief Executive: 132.8%
Chief Financial Officer: 119.5%

STI
Chief Executive: 125%
Chief Financial Officer: 112.5%

Pension 13%

Benefits

Salary
Chief Executive: £1,009
Chief Financial Officer: £580

Maximum

LTIP
Chief Executive: 250%
Chief Financial Officer: 225%

STI
Chief Executive: 250%
Chief Financial Officer: 225%

Pension 13%

Benefits

Salary
Chief Executive: £1,009
Chief Financial Officer: £580

Performance year

Pension 13%

Benefits

Salary
Chief Executive: £1,009
Chief Financial Officer: £580

LTIP: 3-year performance period → **Shares vest** (Year 3) → 2-year retention period → **Shares released** (Year 5)

STI: 1-year performance period → Year 0: **50% awarded in cash**; **50% awarded in shares** → 3-year deferral period → **Shares vest** (Year 3)

Target | Maximum | Performance year | Year 0 | Year 1 | Year 2 | Year 3 | Year 4 | Year 5

Summary of the Directors' Remuneration Policy and 2022 implementation

2022 implementation figures include the remuneration arrangements that will apply to Kathryn McLeland upon her joining the Board as Chief Financial Officer in May 2022, subject to regulatory approval.

Remuneration element and time horizon	2020 Policy summary	2022 Implementation

Base Pay

'22 '23 '24 '25 '26

Operation

Reviewed annually – any increases take effect from 1 April each year.

Opportunity

There are no prescribed maximum salary levels. The Committee considers a range of internal and external factors to ensure that base salaries are appropriate.

Performance

Individual and Company performance will be taken into consideration.

	Effective 1 April 2022 £	Effective 1 April 2021 £	% increase
John Foley	1,009,400	980,000	3.0%
Kathryn McLeland	580,000		n/a
Wider workforce 2022 (budget)			4.0% (4.25% below senior leader level)

Benefits

Operation

Reviewed periodically against market practice taking consideration of benefits offered to colleagues across the Company.

Opportunity

Where applicable, maximum levels are prescribed by the terms of the benefit provider or HMRC limits. Costs are monitored to ensure they remain reasonable for the benefit/ service provided.

Performance

There are no performance measures.

- Life, disability and critical illness insurance
- Private health insurance (including spouse and dependants) and annual health assessment
- Eligibility to participate in the Company Sharesave and Share Incentive Plan (SIP)
- The Chief Executive has grandfathered entitlement to a car service, international medical cover and security costs from employment with Prudential plc

Pension

Operation

Defined contribution pension participation or cash in lieu.

Opportunity

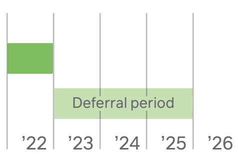
13% of base salary per annum, aligned with the wider workforce.

Performance

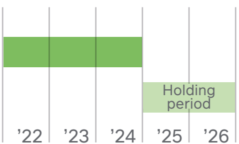
There are no performance measures.

	Contribution 2022	Contribution 2021
John Foley	13%	13%
Kathryn McLeland	13%	n/a

Remuneration element and time horizon	2020 Policy summary	2022 Implementation
Short-term incentives (STI)	**Operation** An annual incentive award subject to performance conditions assessed at the end of the calendar year. Performance outcomes are subject to a discretionary downward risk adjustment. 50% of any STI payable is deferred into shares with a three-year vesting period. Malus and/or clawback provisions apply to cash and deferred STI. **Opportunity** Up to a maximum of 250% of base salary, subject to performance. A threshold, target and maximum performance level is established for each award with a 0% outcome for threshold performance and 50% outcome for target performance. **Performance** Performance scorecards comprise a combination of financial and non-financial measures aligned to the Company's strategic objectives and financial goals. Financial measures must comprise a minimum of 50% of the scorecard.	Financial measures comprise 70% and non-financial measures 30% of the 2022 STI scorecard (see page 145 for details). There were no changes to target and maximum STI opportunity as a % of base salary for 2022:
Long-term incentives (LTIP)	**Operation** LTIP awards over M&G plc shares are normally granted annually subject to performance conditions assessed at the end of a three-year performance period. Vested shares are subject to a two-year holding period. Performance outcomes are subject to a discretionary downward risk adjustment. Malus and clawback provisions apply to the awards over the five-year period. **Opportunity** Up to a maximum of 250% of base salary, subject to performance. Threshold, target and maximum performance levels are established for each award. **Performance** Performance scorecards comprise a combination of financial and non-financial measures aligned to the Company's strategic objectives and financial goals. Financial measures (including TSR) must comprise a minimum of 75% of the scorecard.	Financial measures comprise 50% cumulative operating capital generation and 25% relative TSR. Non-financial measures constitute 25% of the 2022 LTIP scorecard (see page 146 for details). There were no changes to maximum LTIP opportunity as a % of base salary for 2022: In this report the term 'LTIP' refers to awards granted under both the Prudential Long Term Incentive Plan until 2019 and the M&G Performance Share Plan from 2020 onwards.



	Target STI % 2022	Maximum STI % 2022
John Foley	125%	250%
Kathryn McLeland	112.5%	225%



	Maximum LTIP % 2022
John Foley	250%
Kathryn McLeland	225%

Shareholding requirements

The Chief Executive and Chief Financial Officer must attain a shareholding requirement of 300% and 200% of base salary respectively within five years. Vested shares, after the sale of shares to fund tax liabilities, must be held until the requirement is met (unless there are exceptional circumstances). Unvested shares not subject to performance conditions count towards the requirement on a net-of-tax basis. In addition, shares subject to the shareholding requirement must be held in full for two years post-employment.

The shareholdings for the Chief Executive as at 31 December 2021 were as follows. Holdings for Clare Bousfield are shown as at 1 October 2021, the date upon which she stepped down from the Board.

Name	Guidelines	Shares as a % of salary
John Foley	300% of base salary	418.7%
Clare Bousfield	200% of base salary	165.2%

2021 Performance outcomes

The performance scorecard for the 2021 STI was the same for the Executive Directors. For the 2019 LTIP the performance scorecards were different, as explained in detail in the annual report on remuneration from page 130. Outcomes are included for Clare Bousfield in consideration of her role as Chief Financial Officer up to 1 October 2021.

Taking into account a range of factors, the Committee was satisfied that the STI Plan had operated as intended and no adjustments were applied to the formulaic outcomes for Executive Directors.

With respect to the vesting of the 2019 LTIP for the Chief Financial Officer, the Committee exercised discretion to adjust the profit target from that originally disclosed in the 2019 Directors' Remuneration Report by £171.6m (from £2,690m to £2,518m) to reflect that the original business plan on which the target was based did not make provision for a number of additional costs that were to be incurred by the business as a result of the demerger from Prudential plc in October 2019. As a result the LTIP vesting level for the Chief Financial Officer increased from 20% to 41.3% of maximum. The Committee was satisfied that this adjustment was reasonable and that in the context of performance delivered has resulted in a fair and proportionate outcome for all LTIP participants subject to this measure, including the Chief Financial Officer. Further detail is provided in the Remuneration Chair Statement and on page 135.

The Chief Executive is not subject to a profit measure under the 2019 LTIP and no adjustment has been applied to the formulaic outcome that applies to him. The component and total outcomes of the scorecards were as follows:

2021 STI – % of maximum opportunity

		Financial Measures	Non-Financial Measures	Overall STI Outcome
John Foley	2021	82.5%	41.4%	70.15%
	2020	64.0%	48.7%	59.4%
Clare Bousfield	2021	82.5%	41.4%	70.15%
	2020	64.0%	48.7%	59.4%

2019 LTIP – % of maximum opportunity

		Financial Measures (excl. TSR)	TSR	Capital, Conduct and People Measures	Overall LTIP Outcome
John Foley	2021 *(2019 LTIP)*	n/a	36.8%	100.0%	52.6%
	2020 *(2018 LTIP)*	69.8%	0.0%	98.8%	59.6%
Clare Bousfield	2021 *(2019 LTIP)*	26.7%	n/a	100.0%	41.3%
	2020 *(2018 LTIP)*	78.4%	n/a	98.8%	82.4%

Remuneration outcomes

The Executive Directors' 2021 single figure earnings are summarised below (with prior year for comparison):

		Fixed Remuneration £'000	STI £'000	LTIP £'000	Total (incl "Other") £'000
2021	John Foley	1,325	1,719	1,432	4,476
2020	John Foley	1,427	1,455	1,154	4,036
2021	Clare Bousfield	477	661	656	1,795
2020	Clare Bousfield	634	746	384	1,765

- Fixed remuneration includes salary, benefits and pension.
- 2021 single figure earnings for Clare Bousfield reflect her period of service as Chief Financial Officer until 1 October 2021.
- STI includes both the cash and deferred elements of the STI awarded. LTIP shows the vesting proceeds from awards granted in 2019 for the performance period ending 31 December 2021 (and granted in 2018 for the 2020 value, which has been updated to reflect the actual share price at vesting).
- 'Other' is the value of matching shares received on share purchases made through the company's All Share Incentive Plan.

Full details of the single figure methodology and incentive plan scorecards can be found in the annual report on remuneration from page 130.

Rationale for measures and link to strategy

The performance scorecards for short and long-term incentive awards are reviewed annually to ensure they effectively align the Executive Directors' remuneration to the Group's strategic objectives, financial goals, culture and values. We use a combination of financial and non-financial measures in the scorecards to ensure we have an appropriate balance between what performance has been delivered and how that performance has been delivered. Following a number of changes to the incentive plan scorecard measures in 2021, there will only be minor changes applied in 2022. The Committee carefully considered how effectively the scorecards aligned to our strategic priorities and key focus areas. The Committee was also mindful that our remuneration policy is subject to its three-year renewal and shareholder vote at the 2023 AGM, which will require a full review of the policy and how it is implemented, which is being undertaken during 2022.

Performance measures

The performance conditions may comprise a combination of financial and non-financial measures, with financial measures comprising at least 50% for STI and at least 75% (including TSR) for the LTIP. The 2022 STI scorecard will continue to have:

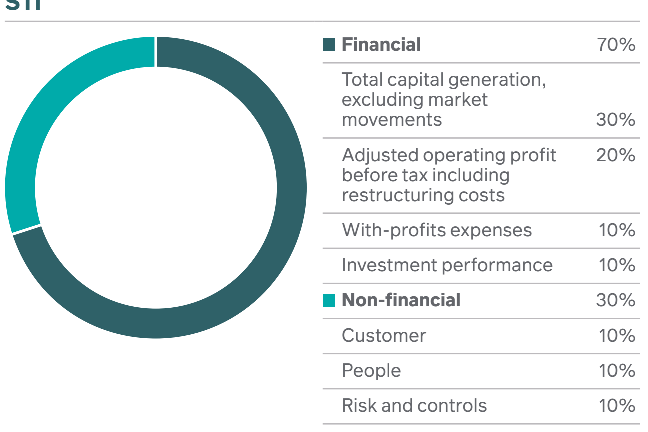
- 70% financial weighting with measures aligned to profit, capital generation, With-Profits Fund expense management and investment performance, with no change to their respective weightings; and
- 30% non-financial weighting with equally weighted measures aligned to customer and people outcomes and risk/controls.

There are no changes to the 2022 LTIP scorecard which will continue to have:

- 75% financial weighting (including TSR) comprising Operating Capital Generation (50%) and TSR ranking within a peer group of FTSE 100 financial services companies (25%); and
- 25% non-financial weighting with measures aligned to Risk and Conduct, Diversity and Sustainability.

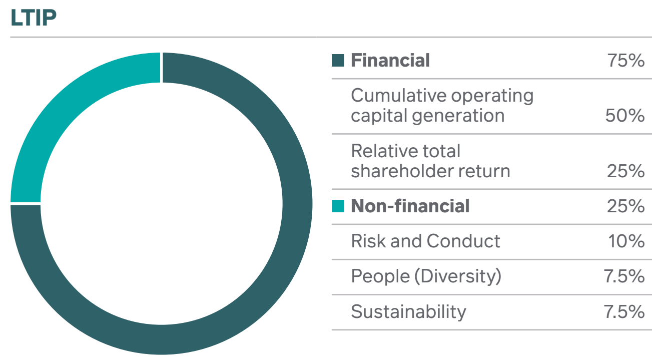
In determining the 2022 incentive scorecards, we have again sought to ensure that all underlying measures have clear and transparent targets and performance tracking methodology, aligned to key priorities for the Company. The performance conditions and weighting for 2022 are illustrated below:

STI



Measure	Weighting
Financial	70%
Total capital generation, excluding market movements	30%
Adjusted operating profit before tax including restructuring costs	20%
With-profits expenses	10%
Investment performance	10%
Non-financial	30%
Customer	10%
People	10%
Risk and controls	10%

LTIP



Measure	Weighting
Financial	75%
Cumulative operating capital generation	50%
Relative total shareholder return	25%
Non-financial	25%
Risk and Conduct	10%
People (Diversity)	7.5%
Sustainability	7.5%

2022 Financial measures

Total capital generation excluding market movements (short-term incentives)

Total capital generation (defined on page 301) is a key performance measure and represents the change in surplus capital during the period before dividends and other capital movements. We consider it to be integral to the management of the business and decisions on capital allocation and investment, and ultimately our dividend policy. The Remuneration Committee believes it is appropriate to exclude the impact of market movements when determining the outcome of short-term incentives. Total capital generation includes restructuring costs. The successful delivery of the transformation activities in the short-term is key to the success of our strategy, and the Remuneration Committee therefore felt it appropriate for restructuring costs to be included for determining the short-term incentive outcomes.

Adjusted operating profit before tax including restructuring costs (short-term incentives)

Adjusted operating profit before tax (defined on page 301) is the Group's non-GAAP alternative performance measure used to demonstrate the longer-term performance of the Group as it is less affected by short-term market volatility and non-recurring items than IFRS profit before tax. Adjusted operating profit before tax is IFRS profit before tax excluding short-term fluctuations from investment returns, profit/(loss) on disposal of businesses and corporate transactions, restructuring and other costs, and profit/(loss) before tax from discontinued operations. Restructuring costs have been included in this measure for the same rationale as outlined above for total capital generation excluding market movements.

With-profits expense measures (short-term incentives)

The With-Profits Fund is an integral part of the business to both the Retail and Savings and Asset Management segments. It is included in the short-term incentive scorecard to ensure there is an appropriate balance between the interests of shareholders and policyholders. This is represented by two measures: With-Profits renewal expenses per policy and With-Profits new business expenses as a percentage of flows.

Investment performance measures (short-term incentives)

Strong investment performance is key to the successful execution of our strategy and delivering good customer outcomes. This is represented by three measures: With-Profits Fund investment performance and investment performance of our retail and institutional funds.

Cumulative operating capital generation (long-term incentives)

Operating capital generation (defined on page 301) is a key performance measure which is less affected by short-term market volatility and other non-recurring items than total capital generation, and is representative of the long-term capital generation of the business. In 2021 we reported that we were changing the LTIP capital measure from total capital generation to operating capital generation. The Committee concluded that it is appropriate to retain operating capital generation in the 2022 LTIP as it provides continuity of target setting, aligns with our external targets and is reflective of performance that is within management's control to deliver.

Relative total shareholder return (long-term incentives)

A long-term measure that ensures direct alignment of remuneration outcomes to shareholder experience relative to shareholders of FTSE 100 financial services companies (excluding investment trusts).

2022 Non-financial measures

Across the short and long-term incentive plans we have non-financial measures aligned to key strategic priorities:

- Two Customer measures that use client feedback leveraged from independent studies that allow us to understand client sentiment about our brands and our position against competitors: (a) for Retail and Savings customers, a measure aligned to addressing and improving our customer net promoter score and; (b) for Asset Management customers, a measure that assesses the level of trust in the M&G Investments brand.
- Sustainability measure aligned to our pledge to reduce our own carbon emissions to net zero by 2030.
- People measures aligned to our stretching long-term diversity target and embedding our culture.
- Risk and Conduct measures aligned to our commitment to operate within an embedded risk culture and strong risk governance framework.

Link to strategic priorities

Metric	1 **One M&G** Realise collaboration synergies and embed ESG	2 **Revitalise UK** Reinvigorate in our target market	3 **Expand Institutional** Broaden capabilities and internationalise	4 **Grow Europe** Build on partnership approach	5 **Build International** Focused expansion in Asia, the Americas and Africa	6 **Protect Heritage** Improve customer outcomes and increase resilience	7 **Active Capital Management and Operational Efficiency** Proactively manage for all stakeholders
Capital generation	●	●	●	●	●	●	●
Adjusted operating profit before tax including restructuring costs	●	●	●	●	●	●	●
With-Profits expense measures	○	●	○	○	○	●	●
Investment performance	○	●	●	●	●	●	○
Non-financial measures	●	●	●	●	●	●	○

Relative total shareholder return aligns the Executive Directors to the experience of shareholders. However, as a Group-level metric it does not apply to the individual strategy priorities and has therefore been excluded from the Link to strategy priorities table.

More on our strategy
Pages 17-24

Annual report on remuneration

Single figure remuneration

In this section

Single figure total remuneration table (Audited)
Single figure remuneration – Base salary (Audited)
Single figure remuneration – Benefits (Audited)
Single figure remuneration – Pension (Audited)
Single figure remuneration – Short Term Incentives (STI) (Audited)
Single figure remuneration – Long Term Incentive Plan (LTIP) vesting in year (Audited)
Single figure remuneration – Other (Audited)
Unvested share awards at time of demerger
Total shareholder return performance graph and Chief Executive pay
Non-Executive Director single figure total remuneration table (Audited)

Single figure total remuneration table (Audited)

The following table provides the 2021 single figure remuneration for the Executive Directors, with prior year for comparison.

Year	Executive Director	Base Salary £'000	Benefits £'000	Pension £'000	Total fixed remuneration £'000	STI £'000	LTIP £'000	Other £'000	Total variable remuneration £'000	Total £'000
2021	John Foley	980	218	127	1,325	1,719	1,432	–	3,151	4,476
2020	John Foley	980	320	127	1,427	1,455	1,154	–	2,609	4,036
2021	Clare Bousfield	419	4	54	477	661	656	1	1,318	1,795
2020	Clare Bousfield	556	6	72	634	746	384	1	1,131	1,765

Notes to the single figure table

- 2021 base salary and benefits for Clare Bousfield reflect her period of service as Chief Financial Officer up until 1 October 2021.
- STI includes both cash and deferred shares components. For Clare Bousfield the value reflects the STI earned for her period of service as Chief Financial Officer.
- The Other category for Clare Bousfield relates to the value of matching shares received on share purchases made through the company SIP.
- The 2019 LTIP awards vesting in 2022 in respect of the performance period ending 31 December 2021 reflect legacy Prudential plc incentive awards rather than the current M&G plc Remuneration Policy approved by shareholders in 2020. The outcome of these awards has been calculated on the basis of the measures and methodology explained in the 2019 Annual Report and on pages 132 to 135 of this report.
- For Clare Bousfield the 2019 LTIP vesting value in respect to 2021 has been pro-rated for 33 over the 36-month performance period to reflect the 1 October 2021 date on which she stepped down from the Board.
- The price used to calculate the value of the M&G plc shares for the 2019 LTIP is £1.9707, using an average of the closing price for the final three months of 2021. The actual share price and vesting value will be determined upon vesting and disclosed in the 2022 Annual Report.
- The 2018 LTIP vesting figures reported in the 2020 single figure now reflect the actual vesting price of the shares, which vested on 1 April 2021 at £2.0761 per share. The values previously included in the 2020 report were calculated using an average of the closing price for the final three months of 2020 (£1.7910).

Single figure remuneration – Base salary (Audited)

The base salaries for the Executive Directors were reviewed in 2021 and no increases granted. A budget of 2.0% applied to the wider workforce in 2021.

Single figure remuneration – Benefits (Audited)

Benefits include the total value of all benefits provided in respect of the year ended 31 December 2021. These comprise life, ill-health and critical illness insurance, private medical cover and eligibility for health assessments. In accordance with the Remuneration Policy, John Foley has also retained a number of legacy taxable benefits offered as a Director of Prudential plc, comprising private international healthcare for him and his family, home security support and use of a car service, with values inclusive of tax paid by the Company.

As was indicated in the 2020 Annual Report, the Chief Executive, in consultation with the Committee, reviewed the in-house car/driver service during 2021 in order to materially reduce the cost of the taxable benefit arising. With effect from 1 July 2021 this service was replaced with a fully outsourced arrangement, materially reducing the cost of this benefit. The 2021 cost therefore represents six months of the previous in-house service and six months of the outsourced service.

	John Foley		Clare Bousfield	
	2021 £'000	2020 £'000	**2021[i] £'000**	2020 £'000
Car/driver	**154**	250	**n/a**	n/a
Security costs	**2**	4	**n/a**	n/a
International healthcare	**51**	51	**n/a**	n/a
Healthcare and insurances	**11**	15	**4**	6
Total	**218**	320	**4**	6

i For Clare Bousfield the 2021 benefits are pro-rated to reflect her period of service as Chief Financial Officer until 1 October 2021.

Single figure remuneration – Pension (Audited)

Executive Directors receive a 13% employer pension contribution which they may receive in part or in full in cash. The contribution rate and delivery options are in line with other employees who participate in the Company's defined contribution pension plan. Executive Directors are not accruing benefits under the Company's legacy defined benefit pension plans.

Single figure remuneration – Short-Term Incentive (Audited)

For the purposes of determining the 2021 STI outcome, the Remuneration Committee assessed the performance of the Company and the individuals by reference to the 2021 STI scorecard, which included a combination of financial and non-financial measures, as follows:

2021 Executive Director STI scorecard outcome

	2021 STI Scorecard	Weighting	Threshold 0%	Target 50%	Maximum 100%	Actual	Outcome	Weighted Outcome
Financial	Adjusted operating profit before tax including restructuring costs (£m)	20%	384	452	520	575	100.0%	20.0%
	Total capital generation excluding market movements (£m)	30%	382	449	516	905	100.0%	30.0%
	With-Profits renewal expense per policy	5.0%	106	97	87	90	83.0%	4.14%
	With-Profits new business expense as % of flows	5.0%	2.31%	2.10%	1.89%	2.49%	0.0%	0.0%
	With-Profits Fund investment performance (three-year)	5.0%	0%	1%	3%	0.29%	14.3%	0.72%
	Investment performance of Retail Funds relative to benchmark (one and three-year)	2.5%	50%	60%	70%	53.1%	15.6%	0.39%
	Investment performance of Institutional Funds relative to benchmark (one and three-year)	2.5%	50%	60%	70%	84.5%	100.0%	2.5%
Non-financial	Customer – digital adoption	3.33%	30.30%	33.30%	36.30%	35.75%	90.0%	3.0%
	Customer – UK net promoter score	3.33%	9	11	13	3	0.0%	0.0%
	Customer – complaints ratio	3.33%	3.40	3.25	3.10	4.4	0.0%	0.0%
	People – culture	5.00%		Qualitative		75%	75.0%	3.75%
	People – sustainable engagement index	5.00%	75.0%	80.0%	82.0%	75%	0.0%	0.0%
	Risk and Controls – % high/very high assurance issues overdue at year-end	3.33%	10%	5%	0%	18%	0.0%	0.0%
	Risk and Controls – % self identified of total assurance issues raised	3.33%	50%	60%	80%	68%	70.0%	2.33%
	Risk and Controls – % overdue RCSA of total	3.33%	10%	5%	2%	0.39%	100%	3.33%
	Total							70.15%

Definitions

Definitions and further details of the above measures are provided on page 147.

Consideration of individual performance

The Committee considered performance assessments for the Executive Directors and concluded that the formulaic outcome of the STI was appropriate in the context of their personal contribution over the performance period.

Consideration of risk

The Committee received an independent review of the control environment and risk issues by the Chief Risk and Compliance Officer, as well as input from the Risk Committee and the subsidiary boards for PAC and MGG. The Committee noted the significant progress and the initiatives delivered in improving the risk and control environment, whilst noting that further improvement is expected. Taking the above into consideration, the Committee considered it appropriate to make no adjustments to the formulaic outcome of the 2021 STI for the Executive Directors.

Deferral policy

50% of any STI amount awarded is deferred for three years in M&G plc shares, subject to continued employment, good leaver and malus provisions. Dividend equivalents accrue on a reinvestment basis during the vesting period.

STI opportunity and outcome

The maximum STI opportunity for the Chief Executive and Chief Financial Officer remained unchanged at 250% of base salary and 225% of base salary respectively for 2021. The STI amounts in the single figure table reflect awards to be delivered in 2022 in respect of 2021 performance, inclusive of both the cash and deferred elements as follows:

Executive Director	Maximum STI Opportunity £'000	Total STI Outcome £'000	Cash STI £'000	Deferred STI £'000
John Foley	2,450	1,719	859	859
Clare Bousfield[i]	942	661	330	330

i The opportunity and outcomes for Clare Bousfield are shown for her period of service as Chief Financial Officer in 2021.

Single figure remuneration – LTIP vesting in year (Audited)

LTIP awards that were granted in 2019 under the Prudential plc Long-Term Incentive Plan vest on the basis of performance measured at the end of 2021. The performance measures and weightings varied for the Executive Directors, reflecting their different roles within the Prudential plc group at the time of grant.

As a result of the demerger and listing of M&G plc in October 2019, it was not possible to complete the performance period for the original Prudential plc capital measures, which comprised 50% of the balanced scorecard in the 2019 LTIP awards. These were replaced with a single M&G plc capital measure for the entire performance period, as explained in the 2019 annual remuneration report. The Remuneration Committee was satisfied that the replacement capital measure and target had been derived from the relevant business plan and that this was the closest equivalent measure available for the performance period. In addition, the TSR measure had to be split into two periods before and after the demerger, tracking Prudential plc and M&G plc performance respectively against the relevant peer groups.

All other terms of the awards were maintained, including the vesting levels at threshold, target and maximum performance. In addition, the shares under each award were converted from Prudential plc shares to M&G plc shares at demerger. The methodology used to ensure that this was a fair and equivalent value conversion is provided in "Unvested share awards at the time of demerger" section on page 136.

2019 LTIP Scorecards

Chief Executive

	Weighting	Measure	Period	Threshold (20%)	Maximum (100%)	Actual	Vesting	Weighted Outcome
Relative TSR	75%	Percentile ranking relative to peer group	1/1/19 – 31/12/21	50th	75th	55th	36.8%	27.6%
Balanced Scorecard	25%	See details of individual capital, people and conduct measures below	1/1/19 – 31/12/21				100%	25%
Total								52.6%

Chief Financial Officer

	Weighting	Measure	Period	Threshold (20%)	Target (80%)	Maximum (100%)	Actual	Vesting	Weighted Outcome
Profit	80%	M&G plc adjusted operating profit before tax including restructuring costs (£m)	1/1/19 – 31/12/21	2,267	2,518	2,770	2,295	26.7%	21.3%
Balanced Scorecard	20%	See details of individual capital, people and conduct measures below	1/1/19 – 31/12/21					100%	20%
Total									41.3%

All financial measures are cumulative over the vesting period.

Notes to the LTIP scorecards:

Definitions

Definitions for the above measures are provided on page 147.

Adjustment to the profit target

The M&G plc adjusted operating profit measure has been assessed for the entire performance period of 1 January 2019 to 31 December 2021.

The Committee exercised discretion to adjust the profit target from that originally disclosed in the 2019 Directors' Remuneration Report to reflect that the original business plan on which the target was based did not make a provision for a number of additional costs that were to be incurred by the business as a direct result of the demerger from Prudential plc in October 2019. These costs were identified and incorporated into a subsequent business plan adopted during 2019 after the awards had been granted.

Following a comprehensive review of the two business plans to determine which elements of the original business plan had specifically changed purely as a result of the demerger, the Committee concluded that a downward adjustment of £171.6m (6.3%) to the profit target and the associated threshold and maximum performance objectives would be appropriate to avoid an unfair disadvantage for LTIP participants with this measure, including the Chief Financial Officer. The identified items making up this amount were:

Additional Costs	Quantum	Descriptor
One-off demerger-related Investment costs	£75m	As part of the demerger we had to complete IT data centre migrations, rebrand the business, put in place new standalone IT systems and fund other separation project costs.
One-off demerger-related Incentive costs	£27m	The demerger triggered a change in control clause in a number of in-flight incentive plans. There was no acceleration of awards at the demerger, however the vesting calculation changed to be the higher of the actual value at vesting OR the value immediately prior to the demerger. This change in valuation methodology led to an increased accounting cost for the remaining vesting period of the awards. The Executive Directors did not have awards under the impacted plans.
Assumption Changes		
Return on Surplus Assets	£70m	Additional cash requirements to fund our dividend policy resulted in lower levels of surplus assets on which investment income can be generated.

The target was therefore reduced from £2,690m to £2,518m with an updated performance range as follows:

M&G Plc Adjusted operating profit before tax including restructuring costs	Performance Range		
	Threshold	Target	Maximum
	20%	**80%**	**100%**
Original target and range	2,421	2,690	2,959
Adjusted target and range	2,267	2,518	2,770

This resulted in the profit outcome of £2,294.5m being above the threshold with a 26.7% vesting level. As the profit measure has an 80% weighting in the scorecard, the Chief Financial Officers' LTIP award vesting level increased by 21.3% of maximum from 20% to 41.3%.

The Committee was satisfied that, given the exceptional circumstances, this adjustment was reasonable and in the context of performance delivered over the period delivered a fair and proportionate outcome for participants, including the Chief Financial Officer. It was also satisfied that the rationale for exercising discretion to amend performance conditions met the requirements of the Directors' Remuneration Policy and scheme rules, in that there had been a material change in circumstances from when the original targets had been established and that the amended condition was not materially less challenging to achieve.

Relative Total Shareholder Return (TSR) outcome table

Prudential plc TSR was measured alongside the following peer group, as disclosed in the 2019 M&G plc annual remuneration report, up to and including the first day of trading of M&G plc following demerger.

– Aegon	– AXA Equitable	– Great Eastern	– Manulife	– Ping An Insurance	– Prudential Financial
– AIA	– China Taiping Insurance	– Lincoln National	– MetLife	– Principal Financial	– Sun Life Financial

In accordance with the terms of the award, we used a 90-day average from the last quarter of 2018 to create the baseline for the calculations. The spot rate on 21 October 2019 was used for the closing TSR. The TSR for Prudential plc included the value of the demerger dividend of one M&G plc share to ensure the calculation accurately reflected shareholder experience.

M&G plc TSR was subsequently measured from its first day of trading to 31 December 2021 relative to a new peer group defined as the FTSE 100 Financial Services sector, excluding investment trusts (consistent with the TSR measure used for new LTIP awards under the M&G plc Remuneration Policy). We used a 90-day average from the last quarter of 2021 to complete the performance period.

The resulting combined TSR performance of Prudential plc and M&G plc was ranked relative to the median and upper quartile of the peer groups, on a similarly combined basis, as shown below:

		Company TSR	Threshold (Peer Group 50th)	Maximum (Peer Group 75th)	Percentile ranking achieved
Prudential plc TSR	1/1/19 – 21/10/19	7.9%	12.0%	20.8%	
M&G plc TSR	21/10/19 – 31/12/21	14.6%	5.1%	20.9%	
Combined	1/1/19 – 31/12/21	23.6%	17.7%	46.0%	55th

Balanced scorecard outcome table

The balanced scorecard comprised three measures linked to capital, people and conduct. We replaced the original Prudential plc capital measures with a single M&G plc capital measure for the entire performance period, as explained in the 2019 annual remuneration report:

	Weighting	Measure	Period	Threshold (20%)	Target (80%)	Maximum (100%)	Actual	Vesting	Weighted Outcome
Capital Measure[i]	50%	M&G plc total capital generated £m	1/1/19 – 31/12/21	2,305	2,561	2,817	4,326	100%	50%
Diversity Measure	25%	Percentage of the Leadership Team that is female at the end of 2021	1/1/19 – 31/12/21	28.0%	30.0%	32.0%	35%	100%	25%
Conduct Measure	25%	Conduct/ culture/ governance	1/1/19 – 31/12/21	Partial achievement		Full achievement		100%	25%
Total									100%

i As confirmed in the Directors' Remuneration Report in the 2020 Annual Report and Accounts, the capital measure for the 2019 LTIP scorecard is total capital generation and not operating capital generation as originally disclosed in the 2019 report. This does not impact the target as originally disclosed or the outcome, as this was already based on the total capital generation definition.

Assessment of the conduct measure and consideration of risk

The awards contained a metric linked to conduct/culture issues leading to a significant capital add-on or material fine. The Committee noted that the fine linked to the thematic review of annuity sales practices, issued to M&G plc in late 2019, had been reflected in the zero outcome of this metric in the 2017 LTIP and following the successful closure of the remediation programme in 2020, concluded that it was not appropriate for it to be also reflected in the 2019 LTIP outcome. The independent Chief Risk and Compliance Officer report, with input from the Risk Committee, confirmed that there were no other significant capital add-ons or material fines during the performance period of the awards, and this element therefore vested in full.

The Committee received an independent review of the control environment and risk issues by the Chief Risk and Compliance Officer, as well as input from the Risk Committee and the subsidiary boards for PAC and MGG. The Committee noted the progress made in improving the control environment whilst observing that this remained a focus area for future improvement. Taking the above into consideration, the Committee considered it appropriate to make no adjustments to the formulaic outcome of the 2019 LTIP awards for the Executive Directors.

Vesting of 2019 LTIP award shares

The unvested LTIP awards granted in 2019 over Prudential plc shares were converted to awards over M&G plc shares in October 2019 using the methodology described in "Unvested share awards at time of demerger" on page 136.

Each of the Executive Directors received an LTIP award under the Prudential Long Term Incentive Plan on 2 April 2019.

In addition, Prudential plc elected to grant an additional LTIP award to the Chief Executive on 26 June 2019 with the same performance conditions as the original 2019 LTIP award, a vesting date of 26 June 2022 and a two-year holding period. The award was granted to ensure that total remuneration granted in 2019 was commensurate with the revised package and role effective from June 2019.

The Chief Financial Officer received an additional LTIP award on 26 June 2019 as replacement for forfeited rights to unvested incentives under a legacy Prudential plc incentive scheme. The replacement award has the same performance conditions as the original LTIP award in 2019 with a vesting date of 26 June 2022. The Remuneration Committee determined that the replacement award provided improved and increased long-term alignment to the strategic objectives of the Company and shareholder interests.

The table below shows:

- the original grant value of the awards and performance outcome;
- the number of shares under award at the vesting date including dividend equivalents that have accrued during the performance period and the number of shares vesting based on the performance outcome;
- the estimated value of the vesting shares using the average closing price for the final three months of 2021 (£1.9707); and
- the vesting value attributable to the accrual of dividend equivalents and share price growth over the performance period. This has been calculated as the difference between the grant value adjusted for performance outcome and the estimated vesting value.

The Committee concluded that it was appropriate to apply discretion to adjust the profit target for the 2019 LTIP award for the Chief Financial Officer to reflect that the original business plan on which the target was based did not make provision for a number of additional costs that were to be incurred by the business as a result of the demerger from Prudential plc in October 2019. This is further explained in the Remuneration Chair Statement and on page 133. The adjustment to target resulted in an increase in the overall outcome for the Chief Financial Officer from 20% to 41.3% of maximum.

No adjustment to the formulaic outcome was made to the 2019 LTIP award for the Chief Executive for whom the profit measure did not apply.

	Grant value £'000	Performance outcome	Shares under award at vesting	Shares vesting	Estimated value of shares vesting £'000	Value attributable to share price movement and dividend equivalents £'000
John Foley – April 2019 grant	1,992.5	52.6%	1,146,441	603,028	1,188.4	140.3
John Foley – June 2019 grant	457.5	52.6%	235,321	123,779	243.9	3.3
Total 2019					**1,432.3**	**143.6**
Clare Bousfield – April 2019 grant (full award)	1,237.5	41.3%	712,028	294,068	579.5	68.4
Clare Bousfield – June 2019 grant (full award)	325.0	41.3%	167,157	69,036	136.0	1.8
Total 2019 (full award)					**715.5**	**70.2**
Clare Bousfield – April 2019 grant (pro-rated)	As above	41.3%	652,692	269,562	531.2	62.7
Clare Bousfield – June 2019 grant (pro-rated)	As above	41.3%	153,227	63,283	124.7	1.7
Total 2019 (pro-rated award)					**655.9**	**64.4**

For Clare Bousfield the number of vesting shares and values are shown on both an actual and a pro-rated basis (33 over 36 months, reflecting the date she stepped down from the Board on 1 October 2021). The pro-rated total value of £656,000 is that shown in the single figure table on page 130.

Single figure remuneration – Other (Audited)

This comprises the value of matching shares received on share purchases made through the company's all-employee Share Incentive Plan (SIP) during the year, at a rate of one matching share for every two shares purchased. The matching shares have been valued using a three-day average price preceding the date of each purchase, which is typically monthly, in accordance with the plan rules. This amount would also include the value of any gain realised on the maturity of a Sharesave contract, although no Sharesave contracts matured for the Executive Directors during 2021.

Unvested share awards at time of demerger

The 2019 LTIP is the last of the awards granted before demerger to vest.

The Executive Directors had unvested deferred STI and LTIP awards over Prudential plc shares at demerger. No value crystallised to the Executive Directors at demerger, and the awards were replaced with awards of equivalent value over M&G plc shares. These awards have the same vesting date and key terms as applied to them under the Prudential plc schemes. In order to achieve equivalent value the following approach was adopted:

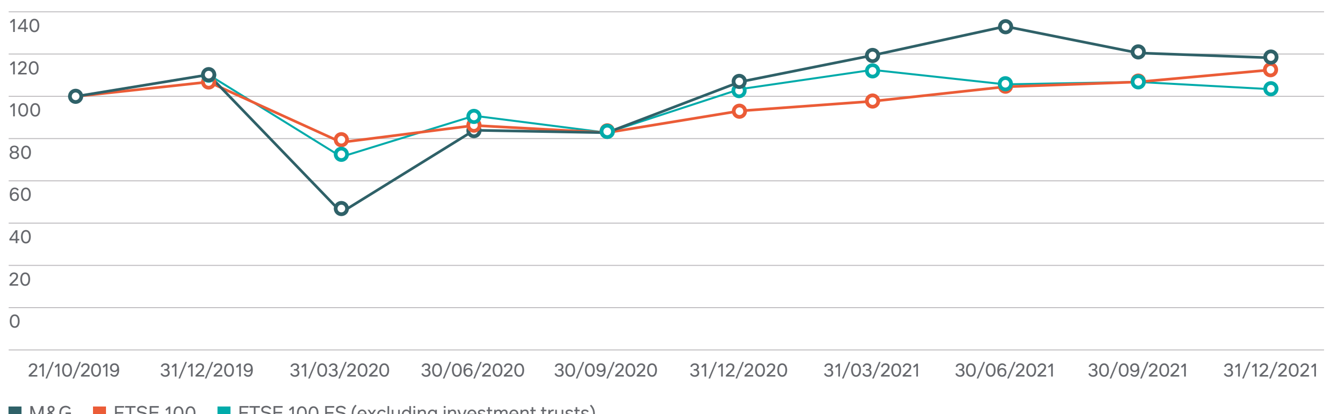
The Prudential plc share awards were valued using the five-day average closing price of Prudential shares up to and including the last trading day on which those Prudential shares were eligible to receive the M&G plc shares as part of the demerger. The average price was £14.814.

The number of M&G plc shares over which the replacement awards were granted was calculated by reference to the five-day average closing price of the first five days of trading of M&G plc's shares. The average price was £2.1737.

The resulting conversion was 6.815 M&G plc shares for each Prudential plc share under award pre-demerger. The Remuneration Committee was satisfied that it had conducted a robust process involving an assessment of market practice, independent advice on alternative approaches and consideration of the associated risks with each approach, in determining the methodology used.

As noted above, it was not possible to complete the performance period for the original Prudential plc capital measures, which comprised 50% of the balanced scorecard in the 2019 LTIP awards. These were replaced with a single M&G plc capital measure for the entire performance period, as explained in the 2019 annual remuneration report. The Remuneration Committee was satisfied that the replacement capital measure and target had been derived from the relevant business plan and that this was the closest equivalent measure available for the performance period. In addition, the TSR measure had to be split into two periods before and after the demerger, tracking Prudential plc and M&G plc performance respectively against the relevant peer groups.

Total shareholder return performance graph and Chief Executive pay



The performance graph shows the Total Shareholder Return of M&G plc compared to the FTSE 100 and FTSE 100 financial services (excluding investment trusts) index constituents for the period beginning in October 2019, when the company was listed upon demerger, and ending in December 2021. These comparators have been chosen as M&G plc is a member of the FTSE 100 index and the FTSE 100 financial services sector (excluding investment trusts) is used to measure relative TSR performance in the LTIP.

The following table sets out a breakdown of the Chief Executive's remuneration for 2019, 2020 and 2021.

	2019	2020	**2021**
Chief Executive	John Foley	John Foley	**John Foley**
Total remuneration (£'000)	3,281	4,036	**4,476**
STI as % of maximum	64.3%	59.4%	**70.2%**
LTIP as % of maximum	63.5%	59.6%	**52.6%**

Non-Executive Director single figure total remuneration table (Audited)

The total remuneration for the full year ended 31 December 2021 for the Chair and each Non-Executive Director is detailed below:

	Fees for 2021 £'000	**Taxable benefits £'000**	**2021 Total £'000**	Fees for 2020 £'000	Taxable benefits £'000	2020 Total £'000
Mike Evans	112.5	0.6	113.1	450.0	2.6	452.6
Fiona Clutterbuck	451.6	–	451.6	39.7	–	39.7
Clare Thompson	201.1	–	201.1	152.0	–	152.0
Clive Adamson	250.0	–	250.0	246.0	–	246.0
Massimo Tosato	271.3	–	271.3	198.8	–	198.8
Clare Chapman	104.1	–	104.1	–	–	–
Robin Lawther	28.9	–	28.9	138.9	–	138.9

Notes to the table:

- Mike Evans left the Board on 1 April 2021. He received fees for his period of service in 2021, and private medical cover for himself and his spouse. In addition he received a payment of £225,000 and private medical cover in respect of his six months' notice period (reported in the payments for loss of office section).
- Fiona Clutterbuck assumed the role of interim Chair from 10 January 2021 and has received the Chair fee from this date. Total 2021 fees include £8,391 for her role as Chair of the IFDL Board until 26 March 2021. The 2020 amount reflects fees paid from 9 October 2020, when she joined the Board, and has been re-stated from the figure reported in the 2020 Directors' Remuneration Report to take account of the backdating of IFDL Chair fees of £3,455 paid for the period 25 November to 31 December 2020.
- Clive Adamson's fees include £110,000 for his roles on the PAC Board during 2021 (and £110,000 in the 2020 amount).
- Massimo Tosato's fees include £175,000 for his role of Chair of the MGG Board during 2021 (and £131,250 in the 2020 amount). 2020 reflects fees paid from 1 April 2020, when he joined the Board.
- Clare Thompson acted as interim Senior Independent Director from 10 January 2021 and has received an additional fee for the role since this date. Fees also include £26,788 for her role as Chair of the IFDL Board since 26 March 2021.
- Clare Chapman joined the Board on 15 March 2021. The table reflects fees paid from this date.
- Robin Lawther left the Board on 15 March 2021. The table reflects fees paid up to her departure.

Directors' share interests and other payments (Audited)

In this section

Awards granted in 2021 (Audited)
Directors' share interests (Audited)
Payments to past Directors (Audited)
Payments for loss of office (Audited)

Awards granted in 2021 (Audited)

The following table provides the details of scheme interests awarded to the Executive Directors during 2021:

Plan	Participant	Type of award	Basis of award	Grant Date	Vesting Date	Face Value at Grant £'000	Number of shares awarded	% payable for threshold performance
Deferred Incentive Plan	John Foley	Share Award	Deferred STI: 50%	01-Apr-21	01-Apr-24	727.7	351,182	n/a
Performance Share Plan	John Foley	Share Award	% of Salary: 250%	01-Apr-21	01-Apr-24	2,450.0	1,182,432	6.25%
Deferred Incentive Plan	Clare Bousfield	Share Award	Deferred STI: 50%	01-Apr-21	01-Apr-24	373.0	180,027	n/a
Performance Share Plan	Clare Bousfield	Share Award	% of Salary: 225%	01-Apr-21	01-Apr-24	1,256.0	606,153	6.25%

Notes on the scheme interests table:

The number of shares granted under deferred STI and LTIP awards was calculated using the average middle-market closing share price for the three business days immediately preceding the award date, being £2.072. Each of the Executive Directors received a deferred STI award of M&G plc shares on 1 April 2021 in respect of their 2020 STI. The face value of the awards was based on deferral rates of 50%, in accordance with the Directors' Remuneration Policy.

Each of the Executive Directors received an LTIP award under the M&G plc Performance Share Plan on 1 April 2021, subject to performance conditions (as described in the table below), with a vesting date of 1 April 2024 and subject to a further two-year holding period. At grant the awards were 250% and 225% of base salary respectively for the Chief Executive and Chief Financial Officer.

Performance conditions for LTIP awards granted in 2021

	Weighting	Threshold	Target	Maximum
Vesting		**0%**	**50%**	**100%**
Cumulative operating capital generation (£m)	50%	2,213	2,604	2,995
Risk and Conduct	10%	See definitions table on page 148.		
Diversity	7.5%	33%	35%	37%
Sustainability – own emissions reduction	7.5%	14.7%	16.8%	18.9%
Vesting		**25%**		**100%**
Relative TSR	25%	50th p'cile		75th p'cile

Definitions

Definitions for the above measures are provided on pages 147 and 148.

Measurement and vesting

All quantitative measures have straight-line vesting between points.

For operating capital generation, measured over the three-year period 1 January 2021 to 31 December 2023, there is 0% vesting for performance at or below threshold, 50% at target and 100% at maximum with straight-line interpolation between these points.

The starting point for TSR will be based on a 30-calendar day average of M&G plc and peer group companies preceding the performance period. The end point will be based on an average of the last 30-calendar days of the performance period. For this metric there is 0% vesting for performance below threshold, 25% for achieving the median and 100% vesting for achieving upper quartile or above with straight-line interpolation between these points. The peer group consists of FTSE 100 financial services companies (excluding investment trusts).

Directors' share interests (Audited)

The following table shows the interests that each Director and their connected persons had in M&G plc shares at 31 December 2021. This comprises personally/legally owned shares, shares purchased and held within the Company's Share Incentive Plan (SIP) and unvested shares under deferred STI and LTIP awards. Shares vesting to John Foley in 2021 from his 2018 LTIP award were subject to a two-year holding period to April 2023 after the sale of shares for tax. These shares are included in the shares owned outright column of the table.

The value of the shares has been calculated using the average closing M&G plc share price for the final three months of 2021, which was £1.9707.

Name	Shares owned outright	Subject to SIP	Deferred STI shares	LTIP awards subject to performance conditions	Total	Value	Multiple of salary
John Foley	1,437,852	1,149	1,213,023	5,318,138	7,970,162	£15,706,798	1,603%
Clare Bousfield	235,274	4,298	431,295	2,897,096	3,567,963	£7,031,385	1,260%
Mike Evans	83,627				83,627	£164,804	n/a
Fiona Clutterbuck	15,920	–	–	–	15,920	£31.374	n/a
Clare Thompson	22,100	–	–	–	22,100	£43,552	n/a
Clive Adamson	9,100	–	–	–	9,100	£17,933	n/a
Massimo Tosato	213,800	–	–	–	213,800	£421,336	n/a
Clare Chapman	––––	–	–	–	–	–	n/a
Robin Lawther	5,668	–	–	–	5,668	£11,170	n/a

There were no changes to the Chief Executive's or Directors' interest in ordinary shares between 31 December 2021 and 3 March 2022. The number of share interests for Mike Evans and Robin Lawther are reported as at the dates of their respective departures from the Board, although valued on a consistent share price basis of £1.9707. Clare Bousfield remains an active employee of the Company and her interests are shown as at 31 December 2021.

Shareholding guidelines

The Executive Directors are required to build up and maintain a shareholding in the Company under the Directors' Remuneration Policy. The holding requirement must be achieved within five years of the introduction of the policy in 2020 (or recruitment date for new Executive Directors).

Name	Guidelines	Shares as a % of salary
John Foley	300% of base salary	418.7%
Clare Bousfield	200% of base salary	165.2%

Holdings as a percentage of salary are shown for the Chief Executive as at 31 December 2021, and for Clare Bousfield as at 1 October 2021, the date upon which she stepped down from the Board. For the purpose of the shareholding requirement, unvested shares that are not subject to performance conditions (deferred STI and LTIP awards subject to a holding period following the completion of the three-year performance period) count towards the shareholding requirement on a net-of-tax value basis.

Payments to past Directors and for loss of office (Audited)

Clare Bousfield stepped down from the Board on 1 October 2021 to carry out a new role within M&G. As Clare remains within the M&G group, no payment in lieu of notice or other termination payment was made to her on stepping down from the Board. Her outstanding share awards also continued to subsist, subject to the rules of the relevant share plans.

Mike Evans received a six-month notice payment of £225,000, as well as benefits to the total value of £3,271, including private medical cover for himself and his spouse until the end of September 2021 and expenses.

Robin Lawther, who left the Board with effect from 15 March 2021, received regular fees up to her exit date only, as disclosed in the Non-Executive Director single figure table. No other fees/payments were made.

Remuneration arrangements throughout the Company

In this section

Workforce remuneration
Chief Executive pay ratio
Directors vs average employee pay
Gender/Ethnicity pay gap
Relative importance of spend on pay

Workforce remuneration

A Remuneration Policy is in place for establishing standards for the design and operation of remuneration across the Company, and is based on principles consistent with the Directors' Remuneration Policy. The core components of remuneration and how they are operated for colleagues across the Company are explained in the table below.

The Board has an established approach to how it engages with colleagues, including both formal and informal meetings. Full details of colleague engagement during 2021 can be found on page 97. We continued to embrace the use of technology to deliver messages and take part in interviews, and have successfully adapted to the challenges presented by the COVID-19 pandemic by presenting interactive updates across the business and holding two Board led virtual colleague engagement sessions. One Voice survey results were discussed by the Board to identify areas for improvement which are communicated back to the business and incorporated into action plans for each function. In line with our ambition to align colleague interests with our business strategy the Board approved a further offer of the UK and International Sharesave plans.

Remuneration element	Details
Base salary	Base salaries are set at a competitive level taking into account a range of factors including: – The individual's skills, performance and experience; – Internal relativities and wider workforce salary levels; – External benchmark data; and – The size, responsibility and geographical scope of the role. The Company is committed to maintaining base salaries at or above the London Living Wage/ National Living Wage, as applicable, across our UK offices and in 2021 achieved formal accreditation as a Living Wage Employer. Base salaries are reviewed annually. In 2021 a 2% budget applied to the wider UK workforce, with no increases for senior managers and executives other than by exception. For 2022 a 4% budget was agreed in the UK, with 3% available for senior colleagues and 4.25% for the rest of the workforce. For our non-UK offices salary review budgets are determined on the basis of economic and market data in each location.
Pension	Across the Company all colleagues are eligible to participate in a pension scheme, which is designed to be competitive, but not excessive, in each of the markets in which we operate. Our standard defined contribution scheme in the UK offers a core contribution of 8% of salary with additional matching to a maximum company contribution of 13%, aligned with the Executive Directors. Certain UK colleagues have retained the right to accrue benefits under defined benefit schemes, which are closed to new entrants (the Executive Directors are not accruing benefits under a defined benefit scheme).
Benefits	Benefit packages are designed to be competitive, but not excessive, aligning with local market practice for businesses with which we compete for talent, and with the culture and values of the Group. Benefit packages are benchmarked periodically to ensure they remain consistent with these principles. A consistent core and flexible benefit offering has been operated across our UK businesses since 2020. Core benefits include life, ill-health and critical illness insurances and private medical cover. Colleagues may supplement core benefits with additional cover for both themselves and family members on a self-funded basis and have access to a range of other voluntary programmes including cycle-to-work and payroll giving. Certain colleagues have entitlement to higher levels of core benefits retained from their employment prior to 2020. To support our colleagues during the global pandemic we have operated a wide range of programmes, including financial support to purchase IT equipment and to set up an appropriate home-working environment, and providing targeted financial support with higher utility costs. In addition there has been continued momentum to broaden and improve accessibility for colleagues to health and well-being programmes during 2021.

Remuneration element	Details
Short-Term Incentive Plans (STI)	All colleagues are eligible to participate in an STI plan with outcomes closely aligned with Group performance, customer outcomes and individual objectives, including the effectiveness of risk management, conduct, culture and behaviours. We operate bespoke schemes for our Investment Management and Distribution colleagues, consistent with these principles. Performance of colleagues engaged in a control function is assessed independently of the performance of the business overseen. We operate a Group-wide deferral policy whereby a proportion of STI over a threshold is deferred for three years, typically in M&G plc shares, unless regulation requires a higher level of deferral or alternative deferral mechanism.
Long-Term Incentive Plans (LTIP)	Participation in an LTIP is reserved for senior management colleagues with the highest influence over the determination and execution of our strategic goals, delivery of business performance and creation of shareholder value. The majority of the Group Executive Committee participate in the performance-based share plan aligned with that disclosed for the Executive Directors, with other senior management and those executives engaged in a control function participating in a non-performance based share award. Eligibility to participate is assessed annually.
All-colleague share plans	All colleagues have an opportunity to participate in an all-colleague share plan, to align with and share in the success of the Company. In the UK all colleagues are eligible to participate in the Company Sharesave (SAYE) and Share Incentive Plan (SIP) on the same terms as those applicable to the Executive Directors. Both schemes are HMRC-approved. We operate an International Sharesave in all other locations, providing the same opportunity as the UK Sharesave, subject to the rules/regulations that apply in each location.

Chief Executive pay ratio

The table below sets out the M&G plc Chief Executive pay ratio when compared to pay levels at the 25th, 50th and 75th percentile of M&G's UK workforce for both base salary and total remuneration. We have used option B as our method for calculating the pay ratio for this report, as this is consistent with our approach and methodology for other publicly reported information on the gender pay gap. Individuals are identified using the gender pay gap methodology, with remuneration then calculated on a basis consistent with the single figure methodology.

	Year	Method	25th percentile	Median	75th percentile
Salary	2021	B	23:1	16:1	11:1
Salary	2020	B	22:1	15:1	11:1
Salary	2019	B	23:1	16:1	12:1
Single figure total remuneration	2021	B	80:1	52:1	36:1
Single figure total remuneration	2020	B	67:1	45:1	31:1
Single figure total remuneration	2019	B	80:1	58:1	35:1

The company finalised the identification of the applicable colleagues at the 25th, 50th and 75th percentiles on 10 February 2022 following the close of the 2021 compensation review in order that 2021 STI outcomes be included, subject to final approval.

The Remuneration Committee is satisfied that using this population and methodology delivers a representative Chief Executive pay ratio relative to the general employee workforce. The changes in the ratio from 2020 are primarily driven by the following factors:

- The Chief Executive did not receive a salary increase in either 2020 or 2021 and the change in ratio is therefore a factor of a slight decrease in the workforce 2021 quartile figures in comparison to the prior year.
- The average salary increase across the UK workforce equalled 5.8% in 2021, as explained in the Directors vs average employee pay table. This consisted of the 2% salary budget as well as targeted increases for market or role change increases. The change in median employee salary is therefore a result of on-going change in the demographic mix of the UK workforce as opposed to the impact of pay decisions on employees over the course of the year.
- The Chief Executive single figure increased by 10.9% in 2021 from 2020. The increase was driven by the improved STI outcome and the increase in the 2019 LTIP grant value over that awarded in 2018, reflecting the new position as Chief Executive of M&G plc following the demerger.
- STI awards for the 2021 performance year for employees were up by an average of 36.2% as explained in the workforce remuneration table on page 142, and the increase in the 2021 pay ratio is therefore a factor of the workforce demographic mix as well as the increase in the Chief Executive single figure.

For the purpose of comparing annual changes in pay levels and determining the pay ratio at each percentile, the single figure methodology was used for total remuneration, as disclosed earlier in this report for the Executive Directors. The salary and total remuneration of the representative individuals at each quartile were as follows:

	25th percentile £	50th percentile £	75th percentile £
Salary 2021	42,314	63,047	92,000
Salary 2020	44,187	64,500	90,245
Salary 2019	39,484	55,750	77,750
Total remuneration 2021	55,716	86,789	124,704
Total remuneration 2020	57,490	85,410	124,603
Total remuneration 2019	46,854	64,707	105,542

Directors vs average employee pay

	2021			2020		
	Change to base salary/fee	**Change to benefits**	**Change to STI outcome**	Change to base salary/fee	Change to benefits	Change to STI outcome
John Foley	0.0%	(32.0)%	18.1%	8.4%	3.5%	11.7%
Clare Bousfield	(24.7)%	(25.0)%	(11.4)%	1.5%	(2.2)%	(14.1)%
Clare Bousfield 2021 annualised	0.4%	0.0%	18.1%	1.5%	(2.2)%	(14.1)%
Fiona Clutterbuck	131.6%	–	–	–	–	–
Clare Thompson	32.3%	–	–	12.6%	–	–
Clive Adamson	1.6%	–	–	38.6%	–	–
Massimo Tosato	2.4%	–	–	–	–	–
UK workforce	5.8%	3.4%	36.2%	3.3%	13.4%	70.4%

Notes to the 2021 to 2020 figures

- The percentage changes for the Directors between 2021 and 2020 have been based on the single figure tables on page 130.
- To provide meaningful comparison in change in pay:
  - An additional line has been added for Clare Bousfield to show annualised outcomes as well as those calculated on the single figure table, which reflects her period of service as Chief Financial Officer up until 1 October 2021. The 0.4% increase in salary earned in 2021 is due to the April 2020 salary increase of 1.49%.
  - 2020 fees have been annualised for Fiona Clutterbuck and Massimo Tosato based on the respective dates they joined the Board in 2020 (9 October and 1 April).
- Mike Evans and Robin Lawther left the Board during 2021 and are not included in the above table. Neither received a fee increase in relation to 2021 fees over 2020.
- The changes in fees are driven by the following:
  - Fiona Clutterbuck assumed the role of interim Chair from 10 January 2021. In addition she received fees for her role as Chair of the IFDL Board up until 26 March 2021.
  - Clare Thompson received additional fees in 2021 for her role as interim Senior Independent Director from 10 January 2021 and commenced as Chair of the IFDL Board at the end of March 2021.
  - Clive Adamson commenced membership of the Nominations Committee in 2020, which leads to a slight increase in fees paid over the course of 2021 relative to the prior year.
  - Massimo Tosato received an increase for his role as Chair of the MGG Board, effective 1 October 2021, to reflect the additional role of Chair of the MAGIM/MAGAIM Boards entailing increased regulatory responsibilities.
  - Clare Chapman joined the Board during 2021 and is therefore excluded from the table.
- Consistent with the Chief Executive pay ratio, the UK workforce is considered the most appropriate employee population for the basis of comparison.
  - The 2021 salary review was managed to an overall budget of 2%. The higher average percentage change of 5.8% reflects the impact of targeted adjustments over the course of the year to align to market or recognise changes in role.
  - There have been no material changes to benefits provision or rates and the annual workforce change percentage is therefore reflective of salary movement and employee selection choices on medical and pension benefits.
  - The change in average STI reflects both financial performance against targets in 2021 and on-going standardisation and simplification of total compensation structures.

Gender/Ethnicity pay gap

Diversity and inclusion is one of our two strategic sustainability priorities, along with climate change. In July 2021, we were proud to become the first business in our sector to publish pay gap data inclusive of ethnicity for both 2020 and 2021, providing greater transparency to the commitments made in our diversity and inclusion strategy.

M&G plc is committed to achieving year-on-year improvement in the representation of gender and ethnicity in senior leadership roles with goals of 40% women and 20% ethnicity by 2025. These goals, which define our commitments to the Hampton-Alexander Review, HM Treasury Women in Finance Charter, 30% Club and the Race at Work Charter, are underpinned by a range of initiatives that are fundamentally shifting the way we recruit, retain and progress our people through their careers.

While we recognise that there remains significant work to do, we are pleased to report good progress and a positive year-on-year improvement in both gender and ethnicity pay gaps. We remain committed to our strategy and are determined to deliver the sustainable long-term changes which will ensure that M&G plc is an organisation in which everyone can thrive.

Gender pay gap

The 2021 mean gender pay gap was 29.3%, down from 30.5% in 2020. At the same time, our mean gender bonus gap decreased from 70.8% in 2020 to 69.3% in 2021. These pay gaps are still larger than we would like them to be – but they are primarily driven by the shape of our organisation with a higher proportion of men in senior roles compared to women.

Year	Mean pay gap	Median pay gap	Mean bonus gap	Median bonus gap
2021	29.3%	26.1%	69.3%	49.0%
2020	30.5%	26.6%	70.8%	51.1%

Ethnicity pay gap

This is the first year that we have reported ethnicity pay gap data – and in the interests of transparency and disclosure we have voluntarily taken the opportunity to publish data for both 2021 and the previous year. Our 2021 mean ethnicity pay gap was 5.7% (2020: 9.3%), while our mean ethnicity bonus gap was 34.0%, an improvement on the 43.6% recorded for the previous year. We are working hard to fully understand the drivers for our pay gaps, and are committed to reduce these in the months and years ahead.

Year	Mean pay gap	Median pay gap	Mean bonus gap	Median bonus gap
2021	5.7%	(11.2)%	34.0%	2.6%
2020	9.3%	(8.4)%	43.6%	1.4%

How we calculate our pay gaps

The mean gender pay gap is a calculation of the average hourly pay or bonus of a man versus the average hourly pay or bonus of a woman and includes all relevant payments and allowances indicated in the gender pay regulations. The median gap is determined by ranking the pay for each man from lowest to highest to determine the mid-point and comparing this to the equivalent mid-point for a woman. Pay quartiles are calculated by ranking the pay for each employee from lowest to highest. This list is then divided into four equally sized segments and the proportion of men and women in these segments are reported (pay quartiles are also calculated and reported within our publicly disclosed gender pay gap reports).

We calculate the M&G plc ethnicity pay gap by following the methodology described in the gender pay gap legislation for our White population compared to our combined Black, Asian and minority ethnic population within the UK.

Our ethnicity pay gap data is calculated using the same calculation methodology as for gender pay gap reporting, based on colleagues who declared their ethnicity. Colleagues who did not share ethnicity information have been included in the White population data.

For more details, please see our UK Gender and Ethnicity Pay Gap Report 2020/21, which is available on our website. The report covers all M&G plc's UK-based staff and includes pay data for both 2020 and 2021.

Relative importance of spend on pay

The following table shows the relative importance of spend on pay in 2021 compared to shareholder dividends, adjusted operating profit before tax and total capital generation. These measures have been chosen as they are key performance measures for the business which are linked to the financial measures in the Executive Directors' STI performance scorecard as defined on page 131. No share buybacks were made in 2021.

£m	**2021**	2020	% change
Spend on pay	**872**	835	4.4%
Shareholder dividends	**466**	562	(17.1)%
Adjusted operating profit before tax	**721**	788	(8.5)%
Total capital generation	**1,822**	995	83%

Statement of implementation of Remuneration Policy in 2022

In this section

- Appointment of Chief Financial Officer
- 2022 Salary review
- Incentive measures changes in 2022
- 2022 Short-term incentive
- 2022 Long-term incentive
- 2022 Non-Executive Director remuneration (Audited)

Appointment of Chief Financial Officer

Kathryn McLeland is due to join the M&G Board in May 2022 as Chief Financial Officer. In determining her remuneration arrangements the Committee took into consideration her experience and expertise, the external market and our Remuneration Policy.

The remuneration package comprises:

- Base salary of £580,000.
- Pension contribution of 13% of salary, in line with the maximum pension rate applicable to the wider workforce, receivable in part or in full in cash.
- Standard benefits in line with policy.
- STI target of 112.5% and maximum of 225% of salary, with 50% delivered in cash and 50% deferred into shares for three years. Eligibility will be pro-rated to the appointment date for the 2022 performance year.
- Eligibility to participate in the Company Long-Term Incentive Plan with a maximum annual share award of 225% of base salary, with three-year vesting subject to applicable performance conditions and a further two-year holding period for vested shares. The first award will be granted in 2022.

2022 Salary review

With effect from 1 April 2022 the base salary for the Chief Executive is as follows:

Year	Salary	Salary Increase
John Foley	£1,009,400	3%

The Committee approved an increase to salary of 3% for the Chief Executive. This was the first increase to apply since the package was reviewed in 2019 in anticipation of demerger from Prudential plc. The Committee considered the external market and the experience of the wider workforce, for whom a 4% budget was applied in 2022. The spend was split between a 4.25% budget for the majority of the workforce and 3% for those in senior management positions (with some variation in our international locations to reflect market conditions).

Incentive measure changes 2022

Following a number of changes to the incentive plan scorecard measures in 2021, there will be only minor changes applied in 2022. The Committee carefully considered how effectively the scorecards aligned to our strategic priorities and key focus areas. The Committee was also mindful that our remuneration policy is subject to its three-year renewal and shareholder vote at the 2023 AGM, which will require a full review of the policy and how it is implemented, which is being undertaken during 2022.

The 2022 STI scorecard will continue to have:

- 70% financial weighting with measures aligned to profit, capital generation, With-Profits Fund expense management and investment performance, with no change to their respective weightings; and
- 30% non-financial weighting with equally weighted measures aligned to customer and people outcomes and risk/controls.

We will be applying two Customer measures that use client feedback leveraged from independent studies that allow us to understand client sentiment about our brands and our position against competitors. For Retail and Savings customers, a measure aligned to addressing and improving our customer net promoter score. For Asset Management customers, a measure that assesses the level of trust in the M&G brand.

STI people measures are focused on embedding our culture.

STI risk and controls has been simplified to two measures, with continuing focus on embedding our risk culture through timely and effective closure of assurance issues and self-identification.

There are no changes to the 2022 LTIP scorecard which will continue to have:

- 75% financial weighting (including TSR) comprising Operating Capital Generation (50%) and TSR ranking within a peer group of FTSE 100 financial services companies (25%); and
- 25% non-financial weighting with measures aligned to Risk & Conduct, Diversity and Sustainability.

Diversity and sustainability measures have updated targets aligned to remaining on-track to achieving our 2025 diversity and inclusion and 2030 own carbon emissions reduction objectives.

2022 Short-term incentive

The maximum STI opportunity for our Executive Directors in 2022 is unchanged from 2021:

- Chief Executive – 250%
- Chief Financial Officer – 225%

The following table shows the 2022 STI scorecard of performance measures and weightings that will apply to both Executive Directors. All measures in the scorecard will have a target and performance range. Full details of the measures and targets will be disclosed retrospectively with performance outcomes in the 2022 Annual Report on Remuneration due to the commercial sensitivity of the targets, as they indicate the Company's forward plan for the year.

	Metrics	Weighting
Financial metrics	Adjusted Operating Profit before tax including restructuring costs	20%
	Total capital generation excluding market movements	30%
	With-Profits Fund expense management	10%
	Investment performance relative to benchmark (1 & 3-year basis)	10%
Non-financial metrics	Customer	10%
	People	10%
	Risk and controls	10%

Definitions

Measure	Additional information
Adjusted operating profit	See the definitions section on page 147.
Total capital generation excluding market movements	See the definitions section on page 147.
With-Profits Fund expense management	Two equally weighted measures as defined on page 147.
Investment performance	Three equally weighted investment performance measures for: – With-Profits Fund – Retail funds – Institutional funds Definitions are provided on page 147.
Customer	Represents two measures, equally weighted: – Pru UK Customers – Net Promoter Score; and – M&G Investment Customers – Trust Ranking Both measures have quantitative targets and performance ranges.
People	Represents key performance indicators from the Company's culture dashboard, relative to a target and performance range.
Risk and Controls	Represents two measures, equally weighted, aligned to assessing the effectiveness of risk management culture across the Company. Both measures have quantitative targets and performance ranges.

2022 Long-term incentive

The maximum LTIP awards for our Executive Directors in 2022 are unchanged from 2021:

- Chief Executive – 250%
- Chief Financial Officer – 225%

The table below shows the 2022 LTIP scorecard of performance measures, weightings, targets and performance ranges that will apply to both Executive Directors:

	Weighting	Threshold	Target	Maximum
Vesting		0%	50%	100%
Cumulative operating capital generation (£m)	50%	2,108	2,480	2,852
Risk and Conduct	10%			See definitions table for details
Diversity	7.5%	36.0%	38.0%	40.0%
Sustainability – own operations emissions reduction (from 2019 baseline)	7.5%	18.4%	21.0%	23.63%
Vesting		25%		100%
Relative TSR ranking	25%	50th p'cile		75th p'cile

Definitions for the above measures are provided on pages 147 and 148.

Non-Executive Director remuneration (Audited)

The fee structure applicable to the Non-Executive Directors in 2022 is detailed in the table below.

£'000	2022 fees	2021 fees
Chair	450	450
Non-Executive Director basic annual fee	75	75
Senior Independent Director	30	30
Chair of the Risk Committee	40	40
Chairs of the Audit and Remuneration Committees	30	30
Members of the Risk, Audit and Remuneration Committees	15	15
Members of the Nominations Committee	10	10

No changes were applied to the Non Executive Director fee structure from 1 January 2022, including that for the interim Chair.

As announced on 24 February 2022, Edward Braham has been appointed as Chair of the Board from 14 March 2022. The new fee that will apply from the appointment date will be £525,000 per annum. In accordance with the Policy, private healthcare will be provided to Edward and his spouse/partner, with Edward responsible for the tax due on the provision of this benefit. No other pension, benefits or payments will be made other than the reimbursement of eligible expenses incurred to undertake the role.

The role is subject to six months' notice from either party without liability for compensation. Taking consideration of external benchmarking and independent advice, the Committee is satisfied that this package is appropriate for the significant strengths and experience that Edward will bring to the Company. The Committee was also mindful of the anticipated time commitment and that this fee had not been reviewed since the previous incumbent had been appointed in 2018.

Directors' service contracts and letters of appointment

As detailed in the Directors' Remuneration Policy all Executive Directors have service agreements of an indefinite duration that can be terminated by either party by serving 12 months' notice and each of the Non-Executive Directors has a letter of appointment with a mutual notice period of six months.

Definitions table

Category	Measure	Definition
Financial		
Profit	Adjusted operating profit before tax including restructuring costs	Adjusted operating profit before tax is the Group's non-GAAP alternative performance measure, which complements IFRS profit before tax. Certain adjustments that are considered to be non-recurring or strategic, or due to short-term movements not reflective of longer-term performance are made to IFRS profit 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 discontinued operations. The adjusted operating profit methodology is described in Note 3 on page 202.
Capital Generation	Total capital generation	Surplus capital is the amount by which own funds exceed the Solvency Capital Requirement (SCR) under Solvency II. Total capital generation is the total change in Solvency II surplus capital before dividends and capital movements, and capital generated from discontinued operations.
	Operating capital generation	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.
Shareholder Return	Relative Total Shareholder Return (TSR)	TSR represents the growth in the value of a share plus the value of dividends paid, assuming that the dividends are reinvested in the Company's shares on the ex-dividend date. Relative TSR compares the performance of the Company with the relevant peer group.
With-Profits Fund expense management	With-Profits renewal expense per policy	Represents the renewal expenses, including associated restructuring costs, incurred by the With-Profits Fund on a per-policy basis.
	With-Profits new business expense as % of flows	Represents new business expenses, including associated restructuring costs, incurred by the With-Profits Fund as a proportion of new business flows and restructuring costs.
Investment performance	With-Profits Fund investment performance	Performance of the With-Profits Fund, relative to its benchmark, the ABI Mixed Investment 20-60% Shares fund.
	Investment performance of Retail and Institutional Funds	The investment performance of retail and institutional funds on an asset weighted basis over one and three years, measured against relevant benchmarks/targets, as appropriate.
Non-Financial		
Customer	Digital Adoption	**2021** (Retail and Savings segment): The percentage of total customer interactions undertaken using digital capability.
	UK Net Promoter Score	**2021** (Retail and Savings segment): 3-month rolling average relative to a target and performance range. **2022** (Retail and Savings segment): 6-month rolling average relative to a target and performance range.
	Complaints ratio	**2021** (Retail and Savings segment): Complaints ratio per 1,000 customer policies, relative to a target and performance range.
	Trust Ranking	**2022** (Asset Management segment): Customer trust ranking relative to competitors.
People **2021 STI Scorecard**	Culture	A qualitative assessment of the M&G culture programme goals and milestones launched in 2020.
	Engagement	The sustainable engagement index score outcome from the One Voice employee opinion survey, relative to a target and performance range.
People **2022 STI Scorecard**		Represents key performance indicators from the Company's culture dashboard, relative to a target and performance range.
Diversity	Percentage of the Leadership Team that is female	Percentage of the senior leadership team, defined as the Executive Committee and their reports, that is female at the end of the defined performance period compared to progress against targets set by the Company upon signing the Women in Finance Charter.
Sustainability	Own emissions reduction	The percentage reduction in the Company's Scope 1, 2 and 3 emissions from the disclosed baseline position for 31 December 2019 in the 2019 Annual Report. Targets are aligned to our objective to achieve net zero emissions by 2030 and are assessed against the 2019 base year.

Category	Measure	Definition
Risk, Controls and Conduct	**STI** Measures aligned to assessing the effectiveness of risk management culture across the Company. All measures have quantitative targets and performance ranges. **2021 STI** – % high/very high assurance issues outstanding at year end – % self-identified of total assurance issues raised – % overdue RCSA of total **2022 STI** – % high/very high assurance issues outstanding at year-end – % high/very high self identified of total high/very high assurance issues raised **2019 LTIP (legacy Prudential plc measure)** Qualitative measure – through appropriate management action, ensure there are no significant conduct/culture/governance issues which result in significant capital add-ons or material fines. **2021 and 2022 LTIP** Determined on a qualitative basis by reference to an independent report from the Chief Risk and Compliance Officer, approved by the Risk Committee, taking consideration of the following criteria: – Adherence to risk appetite policy and limits; and – Adherence to conduct/culture/governance policies and standards.	

Other related disclosures

In this section

Remuneration Committee
External advisers to the Committee
Consideration of risk
Consideration of shareholder views
Voting outcomes and share dilution

Remuneration Committee

The Remuneration Committee's terms of reference can be found on the Company's website.

The Committee's principal areas of focus are:

- Framework of the remuneration policies: establishing, approving and maintaining the principles and framework of the remuneration policies and practices for the Group.
- Remuneration: determining the design, implementation and operation of remuneration arrangements for the Chair of the Board, the Executive Directors, Group Executive Committee, individuals identified as Solvency II staff and Material Risk Takers ('identified staff') under remuneration regulations that apply to the Group and overseeing remuneration for individuals whose total remuneration exceeds an amount determined by the Committee from time to time.

The Remuneration Committee comprises Clare Chapman (Chair), Clare Thompson, Massimo Tosato and Fiona Clutterbuck. The Committee met seven times during 2021 and full details of Committee member attendance can be found on page 93 of the Governance Report. Other attendees during 2021 comprised: Clive Adamson, Board member, Jo Dawson, Non-Executive Board member of PAC (Q1 only) and Louise Fowler, Non-Executive Board member of PAC (from Q3, 2021). Where appropriate the Chief Executive, Chief Financial Officer, Chief HR Officer, General Counsel, Chief Risk and Compliance Officer, Reward Director and Deputy Reward Director also attended meetings. No individual was in attendance for discussions/decisions in respect of their own remuneration.

A summary of the activities undertaken by the Committee is presented below:

Q1 2021	Q2 2021
– Salary review and incentive outcomes for the executives and broader workforce – Performance measures and targets for 2021 incentive plans – Completion and disclosure of the 2020 Annual Remuneration Report – 2021 individual performance objectives for the executives	– Annual share grants for STI deferrals and LTIP awards – AGM – Executive Committee member retirement terms – Amendments to Chief Executive benefits, comprising replacement of the in-house car/driver with a fully outsourced service – Review of internal Remuneration Policy effectiveness and of regulatory requirements including the impact of IFPR
Q3 2021	**Q4 2021**
– 2023 Directors' Remuneration Policy planning – Review of Asset Management workforce remuneration – Incentive plan forecasts and planning – Review of identified staff	– 2023 Directors' Remuneration Policy planning – Incentive plan forecasts and performance measures and targets for 2022 incentive plans – Annual review of remuneration governance, including regulatory compliance – Updates to the Committee Terms of Reference – Board Chair and Material Subsidiary Board fees – Approval of the remuneration packages for the new Chief Operating Officer, Vanessa Murden, and the new Chief Financial Officer, Kathryn McLeland.

External advisers to the Committee

Deloitte were appointed as advisers to the Remuneration Committee in December 2020 following a formal tender process to provide guidance and advice to the Committee. Deloitte are founding members of the Remuneration Consultants Group and provide advice in line with its Code of Conduct. The Committee is satisfied that the advice received from Deloitte is objective and independent. The Committee is comfortable that Deloitte do not have any current connections with any individual M&G plc Directors that may impair their independence and objectivity. In addition to advice regarding remuneration, separate teams from Deloitte also provided other unrelated professional services to the Group during the year including technology consulting, tax advisory services, finance and accounting and also cyber strategy.

PwC, previous advisers to the Committee, were appointed as independent auditors of M&G plc for the period commencing 1 January 2022 and ceased to provide formal advice to the Committee in respect of forward looking remuneration policy and implementation decisions as of 1 January 2021. The Committee retained PwC for a short period in the first quarter of 2021 for feedback and advice on matters relating to their tenure as advisor. We are confident that there were no conflicts of interest.

	Key areas of advice	Total fees 2021
PwC	Advice on disclosure of year-end decisions in Q1 2021.	£6,700
Deloitte	Directors' Remuneration Report, 2022 incentive measures, market insights, Remuneration Policy Review and regulatory advice.	£134,700

Consideration of risk

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

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

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

Input from the report is also used to assess whether there have been any events that warrant the consideration of malus and/or clawback on previously determined awards. Any adjustments applied to scheme outcomes for the Executive Directors will be explained in the relevant Remuneration Report.

Sustainability risk

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

Consideration of shareholder views

As explained earlier in this report, the Committee concluded to exercise discretion to amend the Adjusted Operating Profit performance condition in the 2019 LTIP. The Committee does not take the decision to amend incentive performance conditions lightly, and would only do so in truly exceptional circumstances, taking full consideration of shareholder views. We would like to thank the shareholders with whom we consulted on this issue during February and also those that provided feedback to our communications issued at the beginning of March.

The Company engages with shareholders regularly and any feedback received on remuneration is taken into consideration by the Committee, as is any published guidance issued by shareholders and advisory firms.

The Directors' Remuneration Policy is scheduled for renewal and shareholder vote at the 2023 AGM. We will complete this review during 2022 and are committed to a full and transparent consultation with our shareholders on any changes. The final proposed policy will take full consideration of the feedback we receive and we look forward to engaging with our shareholders on this process.

Voting outcomes at the Annual General Meeting (AGM) 2021

The following table provides the voting outcomes at the May 2021 AGM for the 2020 Annual Remuneration Report and the Directors' Remuneration Policy approved by shareholders in 2020.

Voting Item	For	Against	Abstain
Remuneration Policy	94.86%	5.14%	
	1,778,648,117 votes	96,342,690 votes	28,544,261 votes
2020 Remuneration Report	93.63%	6.37%	
	1,794,353,993 votes	122,024,110 votes	15,212,473 votes[i]

i Votes withheld are not votes in law and therefore have not been counted in the calculation of the proportion of the votes for and against a resolution.

Share dilution

All share plans operated by M&G plc which permit awards to be satisfied by issuing new shares contain dilution limits that comply with the guidelines produced by the Investment Association on 31 December 2018. As at 31 December 2021 M&G plc's standing against these dilution limits was:

- 1.13% (2020: 0.33%) where the guideline is no more than 5% in any 10 years under all discretionary share plans.
- 2.01% (2020: 1.21%) where the guideline is no more than 10% in any 10 years under all share plans.

Statement on external directorships

Details of external directorships held by the Executive Directors can be found on page 88 of the Annual Report.

The Directors' Remuneration report was approved by the Board on 7 March 2022.

Clare Chapman
Remuneration Committee Chair
7 March 2022

Directors' Remuneration Policy

Remuneration Policy for Executive Directors

The Remuneration Policy, which took effect from 27 May 2020, has been designed to align with and support our key strategic priorities to create long-term sustainable performance, shareholder value and positive customer outcomes within an inclusive and engaging culture for our employees. Key principles behind the design of the policy were as follows:

Clarity	Remuneration packages are appropriately positioned relative to the scope and complexity of the roles and relevant market benchmarks to attract, retain and motivate executives with the required skills and experience to deliver our strategic objectives;
Simplicity	Simple and transparent incentives provide clear alignment of objectives and performance with our financial and non-financial strategic priorities;
Risk	A strong focus on adherence to our risk management policies and appetite limits to ensure performance is delivered in the long-term interests of the Company, customers and shareholders;
Predictability	Balancing the interest of shareholders and customers through the combination of performance measures adopted in the incentive schemes that mitigate the risk of conflicts of interest; Strong alignment between remuneration and the long-term interests of the Company through a significant proportion of executive packages being delivered in shares for three to five years, a shareholding requirement policy and two-year post-employment shareholding requirement policy;
Alignment to culture	Key focus on positive customer outcomes and quality of customer engagement; Support for the Group's purpose and values to build a safe, respectful and inclusive culture through remuneration policies and schemes that promote and reward good conduct and behaviours for the benefit of our customers and colleagues; and Promotion of a positive culture for employees and customers with demonstrable alignment to remuneration outcomes where our standards for conduct and behaviours are not met, including a robust individual performance assessment process and malus and clawback policy.

Remuneration element	Strategic alignment and operation	Maximum opportunity	Performance measures
Base salary	Base salaries are appropriately positioned to attract and retain executives with the required skills and experience to deliver our strategic objectives. Base salaries are paid in monthly instalments and are normally reviewed annually with increases normally effective from 1 April each year. In reviewing base salaries, the Remuneration Committee takes into account a number of factors, including: – Company and individual performance; – the scope/size of the roles and the skills and experience of the Executive Directors; – increases amongst the general workforce and affordability; and – and benchmarking information for FTSE 100 financial services companies with operations consisting of one or a combination of insurance, asset management and wealth management with market capitalisation within a reasonable range of M&G plc.	There are no prescribed maximum salary levels, but any increase will be below or in line with increases for the general workforce in an ordinary year. The Remuneration Committee will retain the discretion to award increases at a level greater than that applied to the general workforce if the Remuneration Committee deems it appropriate to do so. The Remuneration Committee will consider the impact of increasing base salary on other elements of remuneration to ensure total remuneration remains appropriate.	Both individual and Company performance will be taken into consideration when determining base salary increases.

Remuneration element	Strategic alignment and operation	Maximum opportunity	Performance measures
Benefits	Benefits are provided to ensure our remuneration packages are appropriate to attract and retain executives with the required skills and experience to deliver our strategic objectives. Benefits are provided to Executive Directors at a market competitive level, taking into account benefits offered to other employees within M&G. Core benefits currently provided to Executive Directors include: – Life assurance; – Disability insurance and Critical Illness insurance; – Private health insurance (including eligibility for his or her spouse or civil partner and dependent children); and – Annual health screening. The Executive Directors are able to participate in self-funded voluntary benefits and discounted M&G products in line with other employees. Executive Directors are eligible to participate in UK all-employee share plans, which currently comprises HMRC-approved Sharesave and SIP plans, on the same terms as other employees. The Chief Executive has retained eligibility for certain additional benefits from his previous employment with Prudential plc comprising a car/driver, international medical cover and home security costs. These additional benefits are exceptional to the Remuneration Policy and will not be provided to any other existing or future Executive Directors.	Cover levels are defined within the terms of each benefit with maximum opportunity dependent on the terms of the insurer and individual circumstances. There is no maximum opportunity defined for the Chief Executive's additional benefits. The cost of these benefits is monitored to ensure they align with the intended benefit and are reasonable for the services provided.	There are no performance measures for benefits.
Pension	Pension contributions as a percentage of salary are aligned with the general workforce at a level sufficient to ensure our remuneration packages are appropriate to attract and retain executives with the required skills and experience to deliver our strategic objectives. Executive Directors are eligible for employer contributions in respect of the Company's defined contribution pension scheme which may be received in part or in full in cash, unless they have an entitlement to accrue benefits within one of M&G's closed defined benefit pension schemes, which they would retain in line with any other employee with the same legacy entitlement. The approach to pension arrangements for the Executive Directors is in line with the wider workforce.	13% of base salary per annum, or, if applicable, standard defined benefit accrual rates in line with the pension plan rules.	There are no performance measures for pension contributions.

Remuneration element	Strategic alignment and operation	Maximum opportunity	Performance measures
Short-Term Incentives (STI)	STI awards are designed to provide clear alignment of objectives and performance with the delivery of our financial and non-financial strategic objectives annually. The deferred share component of STI provides longer-term alignment with the interests of the Company and shareholder value creation. Executive Directors are eligible to participate in an annual STI plan at the discretion of the Committee. Performance measures and weightings are determined annually and may vary to ensure alignment with the business plan and strategy. A threshold, target and maximum performance level is set for each measure, with an outcome of 0% for threshold performance or below and 50% of maximum for on-target performance. Performance outcomes are subject to a discretionary downward risk adjustment taking consideration of an annual report from the Risk Committee, including an assessment of risk and compliance events and the effectiveness of risk management relative to M&G's risk appetite during the performance period. Any adjustments applied will be explained in the relevant annual remuneration report. 50% of any STI payable to an Executive Director will be deferred for three years into an award of M&G shares under the Deferred Incentive Plan. The rate of deferral may be adjusted upwards to meet remuneration regulatory requirements where required. Dividend equivalents may accrue on deferred share awards, based on dividends paid to shareholders during the vesting period. These may accrue either in cash or shares on a reinvestment basis and are subject to the same terms, including vesting date, as the deferred share award. Adjustments may be made to deferred share awards in certain circumstances including rights issues, corporate restructuring and special dividends, if the Remuneration Committee deems it appropriate to do so. Malus and/or clawback provisions apply to both cash and deferred STI awards, as described in further detail in on page 156.	STI awards are subject to an annual limit of 250% of base salary for the Executive Directors.	The scorecard of performance measures will comprise a combination of financial and non-financial measures, with financial measures comprising at least 50% of the scorecard. Performance measures and weightings are determined annually to ensure alignment with the business plan and strategy. The Remuneration Committee has discretion to adjust formulaic outcomes if they are not considered to be representative of the overall financial performance of the Company. Any adjustments applied will be explained in the relevant annual remuneration report. Performance targets and ranges will be disclosed with the performance outcomes of STI awards in the annual remuneration report published at the end of the performance period for the STI awards.

Remuneration element	Strategic alignment and operation	Maximum opportunity	Performance measures
Long-Term Incentive Plan (LTIP)	LTIP awards are designed to provide long-term alignment of executive remuneration to sustained business performance relative to long-term strategic objectives and shareholder value creation. Executive Directors are eligible to participate in an LTIP at the discretion of the Committee. Awards are normally granted annually over M&G plc shares. Awards are subject to performance conditions which are measured over a three-year vesting period from 1 January of the year of grant with vesting occurring on the third anniversary of the grant date. Vested awards are subject to an additional holding period of two years. A threshold and maximum performance level is set for each measure, with straight-line interpolation for performance between these levels. At threshold performance, 0% will vest for all metrics with the exception of TSR, for which 25% will vest. There is zero vesting for performance below the threshold. Maximum performance will result in 100% vesting. Performance outcomes are subject to a discretionary downward risk adjustment taking consideration of a report from the Risk Committee, including an assessment of risk and compliance events and the effectiveness of risk management relative to M&G's risk appetite during the performance period. Any adjustments applied will be explained in the relevant annual remuneration report. Dividend equivalents may accrue on LTIP awards, based on dividends paid to shareholders during the vesting period. In line with the plan rules, dividend equivalents may also accrue during any applicable post-vesting holding period. These may accrue either in cash or shares on a reinvestment basis and are subject to the same terms, including vesting date, performance conditions and holding period, as the LTIP share award. Adjustments may be made to deferred share awards in certain circumstances including rights issues, corporate restructuring and special dividends, if the Remuneration Committee deems it appropriate to do so. Malus and clawback provisions apply to LTIP awards during the vesting and holding periods. Further detail can be found on page 156.	LTIP awards are subject to a limit of 250% of base salary in respect of any financial year. An exceptional limit of 400% of base salary may be used at the discretion of the Remuneration Committee in respect of the year of recruitment of a new Executive Director only.	The performance conditions may comprise a combination of financial (including TSR) and non-financial measures, with financial measures comprising at least 75% of the scorecard. Performance measures and weightings for the grant of new awards are determined annually to ensure alignment with the business plan and strategy. The Remuneration Committee has discretion to adjust formulaic outcomes if they are not considered to be representative of the overall financial performance of the Company. Any adjustments applied will be explained in the relevant annual remuneration report. The Remuneration Committee has discretion to amend or replace performance measures where it reasonably considers it appropriate to do so, provided that the amended conditions are not materially less challenging. Performance measures, targets and ranges will be disclosed in the implementation section of the annual remuneration report for the year prior to the grant of LTIP awards.

Malus and clawback

All STI and LTIPs operated by M&G are subject to malus and clawback provisions in the following circumstances:

Application to STI	– Cash STI – Deferred STI (in shares)	– Clawback for 3 years from the payment date – Malus for the 3-year vesting period
Application to LTIP	– 3-year vesting period – 2-year holding period	– Malus for the 3-year vesting period – Clawback for the 2-year holding period

The circumstances in which the Remuneration Committee may consider the application of malus and/or clawback are defined in the plan rules and can be summarised as follows:

- a material misstatement of published accounts;
- an error in the calculation of performance outcomes or such calculation being based on inaccurate information;
- material risk management failures;
- gross misconduct;
- breach of an applicable law, regulation or code of practice;
- actions leading to reputational harm to the company; or
- corporate failure.

Malus can be applied to an alternative unvested award to satisfy a clawback event on a vested/released award.

Legacy arrangements

Executive Directors may be eligible to receive any payments from any remuneration arrangements in effect prior to the approval of this Remuneration Policy (including vesting of share awards granted prior to the listing of M&G plc or prior to the appointment to the Board). Details of any such payments will be set out in the applicable annual remuneration report as they arise.

Remuneration Committee discretion

The Remuneration Committee retains discretion in the operation and administration of the Directors' Remuneration Policy, noting that no material changes will be made to the advantage of the Executive Directors without obtaining shareholder approval.

This includes (but is not limited to) the following:

- the Executives' participation in the Company's incentive plans;
- the timing of awards including grant, vesting and release dates;
- the size of awards and vesting levels within the limits set out in this policy (including the exceptional LTIP limit of 400% for new appointments);
- the performance measures and weighting for STI and LTIP awards within the terms set out in this policy;
- the adjustment of formulaic outcomes of incentive awards for risk management issues or where the outcomes are not reflective of overall Company performance;
- the settlement of any share awards in cash in exceptional circumstances;
- the determination of good leaver status and treatment of unvested awards in line with this policy and incentive plan rules;
- the extent to which malus and clawback should apply to any award;
- the adjustment of awards in certain circumstances including rights issue, corporate restructuring, change of control and special dividends;
- the amendment or replacement of performance measures where it reasonably considers it appropriate to do so, provided that the amended conditions are not materially less challenging; and
- to amend the policy to ensure continued compliance with any applicable remuneration regulations.

Performance measures

Performance measures and targets for the STI and LTIP include a balance of financial and non-financial measures aligned with the Company's key short and long-term strategic priorities:

- stretching financial targets to deliver growth and create financial flexibility for investment opportunities to build capabilities in high value-added areas and expand our proposition in the UK and internationally. Financial targets are approved by the Board through a rigorous process taking consideration of market conditions, competitor practices and forecasts;
- balancing the interest of policyholders and shareholders;
- creating and maintaining positive experience and outcomes for our customers;
- creating an inclusive and engaging culture that supports the Company's diversity and inclusion objectives to provide equality of opportunity for all who apply for and perform work for the Company;
- adhering to a robust risk management policy and risk appetite limits; and
- aligning with the long-term sustainable success of the Company and value creation for shareholders.

Shareholding requirement

Executive Director	Shareholding requirement
Chief Executive Officer	300% of base salary
Chief Financial Officer	200% of base salary

Align executives with the long-term interests of the Company, customers and shareholders through a requirement to hold shares both during and post-employment.

Executive Directors must attain the shareholding requirement and maintain this level of holding within five years of this policy coming into effect or, for new appointments, of becoming an Executive Director.

In addition to personally owned shares, unvested shares not subject to performance conditions (deferred STI awards and LTIP share awards subject to a holding period) will count towards the requirement on a net-of-tax value basis. Executive Directors must hold vested shares until the requirement is met except in exceptional circumstances with the approval of the Chair.

Shareholding levels will be tested annually following completion of the annual grant and vesting of awards, which will be disclosed in the annual remuneration report.

A post-employment shareholding requirement will be operated for the Executive Directors requiring them to maintain their shareholding requirement or actual shareholding, if lower, at the point of departure in full for two years post-employment (following the same methodology as set out above).

External appointments

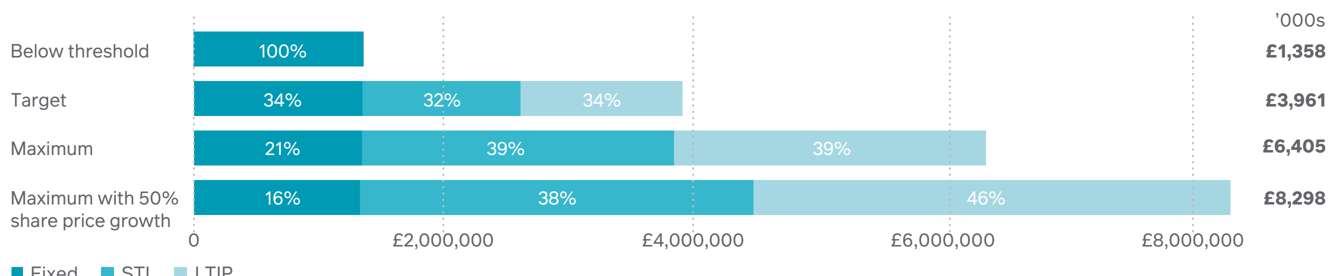
The Executive Directors may take up external directorships and retain the fees for such appointments with the approval of the Board. All external appointments will be disclosed in the annual remuneration report.

Remuneration regulations

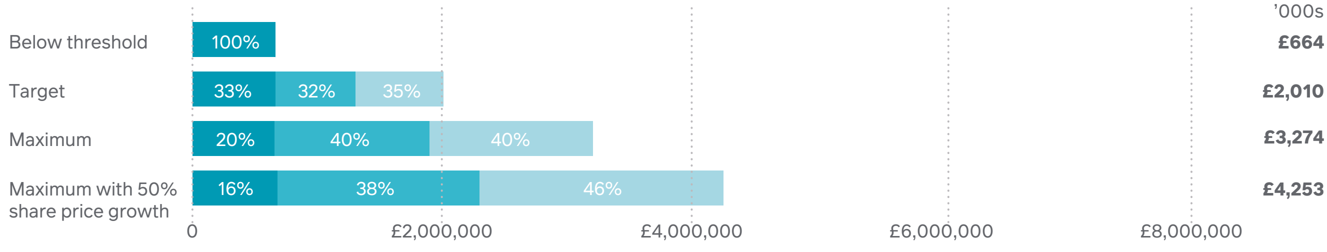
This Policy has been designed to ensure compliance with all remuneration regulations applicable to the Company.
The Remuneration Committee reserves discretion to amend the policy if it is required to do so in order to maintain compliance with any new or amended regulations.

Scenario charts

This policy is designed to ensure that executive remuneration is directly aligned with the delivery of key financial and non-financial performance objectives and the creation of shareholder value, achieved in accordance with the Company's policies and values for risk management, conduct, customer and culture. The majority of the remuneration packages are in the form of incentive awards with the maximum values only achievable with significant outperformance of business plans and objectives. Two-thirds of the incentives are delivered in shares to maintain close alignment with shareholders. The table below illustrates the potential earnings of each Executive Director in four performance scenarios:



Chief Financial Officer



The performance scenarios incorporate the following assumptions:

Fixed remuneration	Comprising the 2022 base salary, benefits (based on the 2021 single figure for the Chief Executive and on a calculated value based on standard benefits provision for the incoming Chief Financial Officer) and a 13% pension contribution.
Target remuneration	Fixed remuneration plus the value that would arise from the incentives for achieving on-target performance: STI with a 50% outcome for on-target performance. LTIP with a 53% outcome for on-target performance (financial/non-financial measures with a 50% outcome and TSR with a performance scale mid-point of 62.5%).
Maximum remuneration	Fixed remuneration plus the value that would arise from the incentives for achieving maximum performance.
Maximum remuneration with 50% share price growth	Maximum remuneration increased for the assumption that the share components of the package (deferred STI and LTIP awards) increase in value by 50% from the share price at grant.

Remuneration Policy for new appointments

Remuneration packages for new Executive Directors (including those promoted internally) will be in line with the requirements of this Policy including maximum incentive levels. If required, awards may be granted to replace awards or amounts forfeited by a previous employer (buyout awards). Any buyout awards would be limited to what is considered to be a fair estimate of the value of remuneration forfeited and with equivalent terms (including vesting dates and performance conditions). The grant value of buyout awards are not subject to the maximum limits described in this policy.

The Company may cover reasonable legal costs and certain relocation expenses in accordance with the Company's relocation policy for new appointments.

New Executive Directors may be eligible for an LTIP award up to the exceptional maximum opportunity of 400% of salary in the year of hire, at the discretion of the Committee.

Service agreements

All Executive Directors have service agreements of an indefinite duration that can be terminated by either party by serving 12 months' notice. Under this policy this is the maximum notice period that may be applied to Executive Directors. The terms of the service agreements are considered to be in line with current best practice for executive directors. The service contracts are available for inspection on request from the Company's offices.

Loss of Office

In the event of the termination of an Executive Director, the terms of the termination will be determined by reference to the service agreement, this policy, the rules of relevant incentive plans and the signing of a settlement agreement, as detailed in the table below:

Element	Policy
Notice period	– 12 months from either party. – The Company may require that all or an element of the notice period be taken as gardening leave. – The Company may elect to pay-in-lieu of notice for all or a portion of the contractual notice period. In this instance payment would be restricted to salary only and may be delivered monthly to mitigate loss. – Any holiday entitlement will be pro-rated to reflect the proportion of the year employed. Any outstanding holiday entitlement must be used during the notice period. – If an executive is dismissed for cause, there will be no notice period or payment made for loss of office.
Termination payments	Consistent with other employees, Executive Directors may receive payments to compensate them for the loss of employment rights on termination, subject to entering into a satisfactory settlement agreement. Payments may include a nominal amount for agreeing to non-solicitation and confidentiality clauses, insurance cover for a specified period following the termination date, outplacement services, legal fees or repatriation assistance. In the event of redundancy a payment may be made in accordance with the Company redundancy policy in effect at that time.
STI awards	A good leaver[i] will be entitled to a pro-rated STI award for the period worked (excluding garden leave) during the year, determined and paid through the normal process and subject to normal terms, including deferral. There is no entitlement to an STI award in the year of termination for a bad leaver.

i Good leaver applies in the event of death, disability, redundancy and sale of the company/business in which an individual works. Other leavers may be granted good leaver status at the discretion of the Remuneration Committee (which may include retirement).

Element	Policy
Treatment of incentive awards	Unvested deferred STI awards for good leavers continue to their normal vesting date. Unvested awards for bad leavers will lapse. Unvested LTIP awards for good leavers will continue to their normal vesting date, pro-rated for the time worked during the performance period. The Remuneration Committee has discretion to waive the pro-ration of LTIP awards, should they deem this to be appropriate. Unvested awards for bad leavers will lapse. Vested LTIP awards subject to a holding period will remain subject to the holding period until the original release date. All awards continue to be subject to their original terms, including malus, clawback and holding periods. The Remuneration Committee has discretion to accelerate the vesting and release of awards for good leavers in exceptional circumstances.
Change of control	In the event of a change of control of the Company, the Remuneration Committee may determine that: – STI awards for the year during which the change of control occurred may either continue to be determined on the basis of the whole year or may be pro-rated to the date of the change of control. – Unvested deferred STI awards are exchanged or replaced with equivalent awards over shares in another company, continuing to their normal vesting date, or that the vesting of the awards is accelerated to the date of the change of control. – Unvested LTIP awards are exchanged or replaced with equivalent awards in another company, continuing to their normal vesting date and subject to the same or equivalent performance conditions, or that the vesting of awards is accelerated to the date of the change of control. If the awards are accelerated, they will be subject to pro-ration and an assessment of the extent to which the performance conditions have been achieved. The Remuneration Committee has discretion to waive the pro-ration of LTIP awards if this is deemed appropriate.

Remuneration Policy for Non-Executive Directors

Element	Policy
Fees	– Fees take account of the time commitment and responsibilities of the roles and market reference points for comparable FTSE organisations. – The Chair receives a base fee which is reviewed annually by the Remuneration Committee. – Non-Executive Directors receive a base fee and additional fees for other Board roles such as Chairship or membership of a Committee, acting as the Senior Independent Director or subsidiary Board roles. Fees are reviewed annually by non-conflicted members of the Board. – Independent advice is considered in all fee reviews.
Benefits	– Private medical insurance is provided to the Chair. – The Chair and Non-Executive Directors are not eligible to participate in the Company's pension or incentive arrangements. – Expenses incurred to undertake the role may be reimbursed by the Company. The Company may pay any tax due on reimbursed expenses.
Recruitment	Fees for a new Non-Executive Director will be aligned with the fee structure applicable to other Non-Executive Directors at the time of appointment.
Notice period	– Chair: six months by either party without liability for compensation. – NED: six months by either party without liability for compensation.
Key terms of appointment	The Chair and Non-Executive Directors are subject to annual re-election at the AGM.

Note on changes since the last policy

There have been no changes to the policy since it was approved by shareholders in May 2020.

Directors' Report

The Directors present their Report for the financial year ended 31 December 2021. The Strategic Report and the Governance Report are incorporated by reference into the Directors' Report as noted in the index on page 163. In addition, the risk factors set out on pages 72 to 78, the additional unaudited financial information set out on pages 301 to 312 and the Shareholder Information section on page 320 are incorporated by reference in the Directors' Report. In accordance with the UK Financial Conduct Authority's Listing Rules (LR 9.8.4C), the information to be included in the Annual Report and Accounts, where applicable, under LR 9.8.4, is set out in this Directors' Report.

Directors

The names and details of the current Directors, along with their biographical details as at the date of this Report, are set out on pages 88 to 89. The Directors who served during 2021 are set out below:

Director	Appointment	Resignation
Clive Adamson	22 March 2019	
Clare Bousfield	23 January 2019	1 October 2021
Clare Chapman	15 March 2021	
Fiona Clutterbuck	9 October 2020	
Mike Evans	1 October 2018	1 April 2021
John Foley	2 July 2018	
Robin Lawther	22 March 2019	15 March 2021
Clare Thompson	7 May 2019	
Massimo Tosato	1 April 2020	

Strategic Report

The Strategic Report on pages 2 to 84 is incorporated by reference and shall be deemed to form part of this Directors' Report.

Powers of the Board

The Board may exercise all powers conferred on it by the Company's Articles and the Companies Act 2006. This includes the powers of the Company to borrow money and to mortgage or charge any of its assets (subject to the limitations set out in the Companies Act 2006 and the Company's Articles) and to give a guarantee, security or indemnity in respect of a debt or other obligation of the Company. A copy of the Company's Articles can be found in the Corporate Governance section of our website.

Share capital

Issued share capital

The issued share capital as at 31 December 2021 consisted of 2,599,906,866 ordinary shares of 5 pence each, all fully paid up and listed on the London Stock Exchange.

Rights and obligations

The rights and obligations attaching to the Company's shares are set out in full in the Articles. There are currently no voting restrictions on the ordinary shares, all of which are fully paid, and each share carries one vote on a poll. If votes are cast on a show of hands, each shareholder present in person or by proxy, or in the case of a corporation, each of its duly authorised corporate representatives, has one vote except that if a proxy is appointed by more than one member, the proxy has one vote for and one vote against if instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution. Where, under an employee share scheme, participants are the beneficial owners of the shares but not the registered owners, the voting rights are normally exercisable by Sanne Fiduciary Services Limited and Equiniti Share Plan Trustees Limited (The Trustees) in accordance with the relevant plan rules. The Trustees would not usually vote any unallocated shares held in trust, but they may do so at their discretion provided it would be considered to be in the best interests of the beneficiaries of the trust and permitted under the relevant trust deed. As at 4 March 2022, Trustees held 2.21% of the issued share capital under the various plans in operation. Rights to dividends under the various schemes are set out in the Directors' Remuneration Report.

Restrictions on transfer

In accordance with English company law, shares may be transferred by an instrument of transfer or through an electronic system (currently CREST) and any transfer is not restricted except that the Directors may, in certain circumstances, refuse to register transfers of shares but only if such refusal does not prevent dealings in the shares from taking place on an open and proper basis. If the Directors make use of that power, they must send the transferee notice of the refusal within two months. Certain restrictions may be imposed from time to time by applicable laws and regulations (for example, insider trading laws) and pursuant to the Listing Rules of both the Financial Conduct Authority as well as under the rules of some of the Group's employee share plans.
All Executive Directors are required to hold a minimum number of shares under guidelines approved by the Board, which they would also be expected to retain as described on page 127 of the Directors' Remuneration Report.

Authority to issue shares

The Directors require authority from shareholders in relation to the issue of shares. Whenever shares are issued, these must be offered to existing shareholders pro-rata to their holdings unless the Directors have been given authority by shareholders to issue shares without offering them first to existing shareholders. M&G plc will seek authority from its shareholders on an annual basis to issue shares up to a maximum amount, of which a defined number may be issued without pre-emption. Disapplication of statutory pre-emption procedures is also sought for rights issues. Relevant resolutions to authorise share capital issuances will be put to shareholders at the AGM which is expected to take place on 25 May 2022.

Authority to purchase own shares

The Directors require authority from shareholders in relation to the purchase of the Company's own shares. M&G plc will seek authority by special resolution on an annual basis for the buyback of its own shares in accordance with the relevant provisions of the Companies Act 2006 and other related guidance. A special resolution

will be put to shareholders at the AGM which is expected to take place on 25 May 2022. There were no share buybacks in the period to 31 December 2021.

Major shareholders

The table below shows the holdings of major shareholders in the Company's issued ordinary share capital, as at 31 December 2021, as notified and disclosed to the Company in accordance with the Disclosure Guidance and Transparency Rules. The Company is not aware of any agreements between holders of securities which may result in restrictions on the transfer of securities or on voting rights.

Shareholder	% of total voting rights
BlackRock, Inc.	6.61%
Norges Bank	4.005%
Schroders plc	5.189%
Silchester International Investors LLP	5.050%

On 2 September 2021, The Capital Group Companies, Inc. notified the Company pursuant to the Disclosure Guidance and Transparency Rules of a reduction in its shareholdings from 5.19% to 4.91%. The Company has since confirmed that The Capital Group Companies, Inc. has reduced its shareholdings to a level which no longer needs to be disclosed and the Company has therefore excluded The Capital Group Companies, Inc. from the table of its major shareholders notwithstanding that this change in position was not notified to the Company pursuant to the Disclosure Guidance and Transparency Rules.

Between 31 December 2021 and 4 March 2022 (the latest practicable date for inclusion in this report) there have been no changes to the table of major shareholders.

Dividend information

2021 dividend	Shareholders registered on the UK register
Ex-dividend date	17 March 2022
Record date	18 March 2022
Payment date	28 April 2022

A number of dividend waivers are in place and these relate to shares issued but not allocated under the Group's employee share plans. These shares are held by the Trustees and will, in due course, be used to satisfy requirements under the Group's employee share plans.

Cash dividend alternative

The Company operates a Dividend Re-investment Plan (DRIP). Shareholders who have elected for the DRIP will automatically receive shares for all future dividends in respect of which a DRIP alternative is offered. The election may be cancelled at any time by the shareholder. Further details of the DRIP can be found on our website.

The ability to receive dividend payments by cheque was withdrawn for the dividend payment made on 28 April 2021. Dividends will be paid by direct debit or shareholders can join the Dividend Re-investment Plan to use their dividend to purchase further M&G plc shares. Receiving dividends in this way, rather than by cheque, means shareholders can receive funds more quickly, more securely and in a more environmentally friendly way.

Political donations

The Group does not make political donations.

Equal opportunities and employment of disabled persons

M&G plc's Global Diversity and Inclusion Policy ensures that equal opportunities are afforded to all colleagues, candidates and suppliers in an environment in which each is treated with dignity and respect. Clearly documented processes are in place to ensure diversity and inclusion is embedded in the culture of the workplace and that we comply with statutory and regulatory requirements in the local labour market; provide equality of opportunity for all who apply for and perform work for M&G plc irrespective of sex, race, age, ethnic origin, educational, social and cultural background, marital or civil partnership status, religion or belief, sexual orientation or disability; and allow for reasonable adjustments to support those with special requirements. Moreover, we encourage the same standards of our recruitment and consultant suppliers.

The Company's goals around women in senior executive positions can be found on page 65 and the proportion of women on the Board and in senior executive positions can be found on page 92. The Company's ethnicity targets can be found on page 65.

Change of control

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company, such as commercial contracts, bank loan agreements, property lease arrangements and employee share plans. In the context of the Group as a whole, none of these is deemed to be significant in terms of their potential impact except for that listed below.

Credit facilities

Under a £1,286 million multi-currency revolving credit facility between the Company and the banks and financial institutions named therein as lenders (Lenders) dated 27 March 2019 (the Facility), in the event that any person or group of persons acting in concert directly or indirectly gains control of the Company and its subsidiaries, then any Lender may elect within a prescribed time frame to be replaced by a new lender, or to cancel its commitment, under the Facility whereupon the Company shall be required to repay each loan made to it on the last day of the interest period for that loan, and any loan repaid may be reborrowed from a new lender, subject to the terms of the Facility. Under a £107 million and two £53.6 million revolving loan facilities between the Company and the bank named therein as lender (Lender) dated 27 March 2019 (the Facility), in the event that any person or group of persons acting in concert directly or indirectly gains control of the Company and its subsidiaries, then the Lender may elect within a prescribed time frame to be replaced by a new lender, or to cancel its commitment, under the Facility whereupon the Company shall be required to repay each loan made to it, together with accrued interest and all other amounts accrued under the Facility, which shall in each case be immediately due and payable, on the last day of the interest period for that loan.

Risk management objectives and policies

Details of the framework which allows M&G to manage risk within agreed appetite levels is set out on pages 70 and 71. In this section is information on risk culture and governance, systems of internal control, how risks are categorised and how risk appetites and levels are set. Specific information around risk management objectives, policies (e.g. hedging) and exposure (e.g. price, credit, liquidity, cash flow risk) is contained in the financial statements on pages 254 to 270.

Environmental, employee and social policies

Policies relating to environmental matters, the Company's employees and social, community and human rights issues can be found on pages 38 to 69 of this Report.

Transactions with related parties

The Company and its related parties comprise members of the M&G plc Group, as well as the Group's joint ventures and associates and any entities controlled by those parties. Note 36 to the consolidated financial statements on pages 272 and 273 sets out details of related party transactions.

Directors' and executives' beneficial interests

Details of Directors' and executives' beneficial interests can be found in the Directors' Remuneration Report on page 139.

Directors' indemnities and insurance

The Company maintains Directors and Officers Liability insurance cover in respect of legal actions brought against its Directors and Officers. Pension Trustee Liability insurance is also in place to cover legal actions brought against pension trustees of the Group's three pension schemes managed for staff pensions. The policies include coverage for M&G plc and its subsidiaries. Qualifying third-party indemnity provisions are also available for the benefit of the Directors of the Company and certain other such persons, including certain Directors of the other companies within the Group. Qualifying pension scheme indemnity provisions are also in place for the benefit of certain pension trustee Directors within the Group. No amounts were paid under these insurance or indemnity provisions both of which remained in force throughout 2021.

Statement of disclosure of information to the auditor

Each Director of the Company confirms that, as far as each is aware, there is no relevant audit information of which the Company's auditor is unaware and that each of the Directors has taken all reasonable steps to ascertain any relevant audit information and to ensure the Company's auditor is aware of that information.

Going concern

The Group's business activities, together with the factors that may affect its future development and performance are stated in the Strategic Report. The Strategic Report also describes the Group's business model and key components of our strategy. The principal risks and uncertainties that the Group is exposed to and how the Group manages and mitigates them is set out on pages 72 to 78.

The Board undertook a comprehensive going concern assessment to satisfy themselves of the appropriateness of the use of the going concern assumptions in relation to these consolidated financial statements. As part of the assessment, the Board considered the liquidity projections of the Group, including the impact of applying specific liquidity stresses. The Board also considered the ability of the Group to access external funding sources and the management actions that could be used to manage liquidity.

As part of the assessment, the Board also gave particular attention to the solvency projections of the Group under a base scenario and its sensitivity to various individual economic stresses and certain stressed scenarios, which included a pessimistic COVID-19 scenario.

Based on the assessment undertaken, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The Directors have acknowledged their responsibilities in the Statement of Directors' Responsibilities in relation to the financial statements for the year ended 31 December 2021.

Greenhouse gas emissions

Further details of our approach to the environment, including information in relation to greenhouse gas emissions, can be found on pages 38 to 57. This forms part of the ESG Report section of the Annual Report on pages 38 to 69.

Branches

The Group has branches in Belgium, France, Germany, Italy, Malta, the Netherlands, Poland, Spain, Sweden and the UK. More details of the extent of our international footprint can be found on page 3.

Research and development

The Group undertakes research and development activities in relation to longevity research and risk modelling as well as the impact of climate change on various asset classes.

Change of auditor

On 30 October 2020, the Board announced its intention to appoint PricewaterhouseCoopers LLP (PwC) as its external auditor for the year ending 31 December 2022. This followed a competitive tender process actively overseen by the Audit Committee, as referred to on page 116 and resulted in a recommendation which was approved by the Board.

Consequently, KPMG will resign as the Group's statutory auditor at the conclusion of the 2021 audit and the Board will resolve to appoint PwC to fill the vacancy. A resolution to appoint PwC as auditor will be recommended to the Company's shareholders for approval at the Annual General Meeting expected to take place on 25 May 2022. KPMG and PwC will be available at the 2022 Annual General Meeting to answer any questions.

Corporate governance statement

The Corporate Governance Statement on page 91 forms part of the Directors' Report. It sets out relevant information on the corporate governance practices of M&G plc, and how it has applied the UK Corporate Governance Code issued by the Financial Reporting Council (FRC) in July 2018. It also includes details of internal control and risk management systems and diversity policies as well as the discussion of issues raised, topics considered and feedback received during engagement with employees and how Directors have had regard to the need to foster the Company's business relationships with suppliers and customers.

Assessing and monitoring culture

Information on actions the Board has taken in relation to culture in 2021 can be found in the Strategic Report on pages 2 to 84 and in the Governance Report on pages 86 to 159.

Conflicts of interest

The Company has a Conflicts of Interest Policy and maintains a Conflicts of Interest Register. Mandatory training on conflicts for all M&G plc employees took place over 2021 and the Chief Risk & Compliance Officer reports to the Board and its Committees on conflicts as required.

Requirements of Listing Rule 9.8.4

Information to be included in the Annual Report and Accounts under Listing Rule 9.8.4, where applicable, can be found as follows:

Listing Rule	Description	Location
9.8.4(1)R	Interest capitalised	Not applicable
9.8.4(2)R	Publication of unaudited financial information	Supplementary Information page 301
9.8.4(4)R	Details of long-term incentive schemes required by Listing Rule 9.4.3	Directors' Remuneration Report page 119
9.8.4(5)R	Waiver of emoluments by a Director	Not applicable
9.8.4(6)R	Waiver of future emoluments by a Director	Not applicable
9.8.4(7)R	Non pre-emptive issues of equity for cash	Not applicable
9.8.4(8)R	Non pre-emptive issues of equity for cash in relation to major subsidiary undertakings	Not applicable
9.8.4(9)R	Parent participation in a placing by a listed subsidiary	Not applicable
9.8.4(10)R	Contracts of significance involving a Director	Not applicable
9.8.4(11)R	Provision of services by a controlling shareholder	Not applicable
9.8.4(12)R	Shareholder waivers of dividends	Dividend Information page 161
9.8.4(13)R	Shareholder waivers of future dividends	Dividend Information page 161
9.8.4(14)R	Agreements with controlling shareholders	Not applicable

Index to principal Directors' Report disclosures

Information required to be disclosed in the Directors' Report may be found in the following sections:

Information	Section in Annual Report	Page
Disclosure of information to auditor	Directors' Report	162
Directors in office during the year	Directors' Report	160
Corporate responsibility governance	ESG	63
Employment practices and engagement	ESG	97
Greenhouse gas emissions	ESG	50
Charitable donations	ESG	63
Assessing and monitoring culture	Strategic Report	64
Political donations and expenditure	Directors' Report	161
Remuneration Committee Report	Governance	119
Directors' interests in shares	Directors' Remuneration Report	139
Agreements for compensation for loss of office or employment on takeover	Directors' Remuneration Report	158
Details of qualifying third-party indemnity provisions	Directors' Report	162
Internal control and risk management	Risk management	70
Rules governing appointment and removal of Directors	Governance	103
Significant agreements impacted by a change of control	Directors' Report	161
Future developments of the business of the Company	Strategic Report	24
Post-balance sheet events	Note 39 of the financial statements	278
Rules governing changes to the Articles of Association	Shareholder Information	320
Structure of share capital, including changes during the year and restrictions on the transfer of securities, voting rights and significant shareholders	Directors' Report and Shareholder Information	160
Business review	Strategic Report	27
Changes in borrowings	Note 27 of the financial statements	239
Dividend details	Strategic Report	5
Financial instruments	Note 19 of the financial statements	228

In addition, the principal risks set out on pages 72 to 78, the additional unaudited financial information set out on pages 301 to 312 and the Shareholder Information section on page 320 are incorporated by reference into the Directors' Report.

Signed on behalf of the Board of Directors

Alan F Porter
General Counsel and Company Secretary
7 March 2022

The Directors are responsible for preparing the Annual Report and the consolidated and Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare consolidated and Company financial statements for each financial year. Under that law they are required to prepare the consolidated financial statements in accordance with UK-adopted international accounting standards and applicable law and have elected to prepare the Company financial statements in accordance with UK accounting standards and applicable law, including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the Group's profit or loss for that period.

In preparing each of the consolidated and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the consolidated financial statements, state whether they have been prepared in accordance with UK-adopted international accounting standards;
- for the Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Company financial statements;
- assess the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

John Foley
Chief Executive
7 March 2022

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to the members of M&G plc

1. Our opinion is unmodified

We have audited the financial statements of M&G plc ("the Company") for the year ended 31 December 2021 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows, Company statement of financial position, Company statement of changes in equity, and the related notes, including the accounting policies notes.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the requirements of the UK-adopted international accounting standards;
- the Company financial statements have been prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the shareholders on 2 July 2018. The period of total uninterrupted engagement is for the four financial years ended 31 December 2021. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality:		
Group financial statements as a whole	£60m (2020:£60m) 1.1% (2020 1.1%) of Group Net Assets	
With-profits and unit-linked assets and liabilities	£200m (2020:£200m) 1.2% (2020 1.3%) of Group unallocated surplus of the With-Profits Fund	
Coverage	96% (2020:96%) of Group net assets	
Key audit matters		**vs 2020**
Recurring risks	Valuation of insurance contract liabilities	↔
	Valuation of investments that require judgement	↓
	Recoverability of the Company's investment in subsidiaries	↔

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2020), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response

Valuation of insurance contract liabilities and investment contract liabilities with discretionary participation features (collectively, 'insurance contract liabilities')
(£145,966 million; 2020: £156,273 million.
The risk has remained unchanged compared to the prior year.
Refer to page 187-188 accounting policy and page 232-238 financial disclosures).
	Subjective valuation:
	The Group has significant insurance contract liabilities representing 68% (2020: 70%) of the Group's total liabilities.
	This is an area that involves significant estimation over uncertain future outcomes, mainly the ultimate total settlement value of insurance contract liabilities.
	The valuation of insurance contract liabilities requires significant judgement in the selection of key assumptions covering both operating and economic assumptions.
	The key operating assumptions are:
	– Mortality, which is determined by reference to the Group's own experience and expected levels of future mortality, and includes the ongoing consideration of the impact of COVID-19;
	– The expected level of future expenses, which is based on the expected future costs for administering the underlying policies; and
	– The number of policyholders who may exercise the option to defer their retirement date at maturity in future periods. The assumption applies to certain with-profits contracts where the terminal bonus is guaranteed at their retirement date. This assumption is determined by reference to the Group's own experience.
	The key economic assumption, that impacts the calculation of the discount rate that is applied to the annuity business, is the credit default risk which is based on the Group's view of expected future investment defaults including the future impact of COVID-19 on the economic environment.
		We used our own actuarial specialists to assist us in performing our procedures in this area.
		Our procedures include:
		– **Control design and reperformance:** We have tested, assisted by our own IT auditors, the design, implementation and operating effectiveness of key controls over the valuation process, including additional testing in relation to model evaluation as a result of identified weaknesses in the general IT control environment. Our testing identified weaknesses in the design and operation of controls. As a result we expanded the extent of our detailed testing.
		– **Methodology choice:** We have assessed the methodology for selecting assumptions and calculating the insurance contract liabilities. This included:
		  – Assessing the methodology adopted for selecting the assumptions by applying our industry knowledge and experience and comparing the methodology used against standard industry practice, including consideration of the effects of COVID-19 on mortality.
		  – Evaluating the analysis of the movements in insurance contract liabilities during the year, including consideration of whether the movements were in line with the impact of methodology and assumptions adopted.
		  – Comparing changes in methodology to our expectations derived from market experience.
		– **Tests of detail:**
		  – Tested the completeness of data used in the valuation of insurance contract liabilities by reconciling the data from the policy administration systems to the data in the model point files used in the actuarial models.
		  – Reconciled the completeness and accuracy of the assets used in the calculation of the Valuation Interest Rate to the assets used to back the insurance liabilities.
		– **Historical comparison:**
		  – Evaluated the evidence used to select the mortality rate by reference to actual mortality rate of the policyholders in order to assess whether this supports the year-end assumptions adopted. This included assessing the impact of COVID-19.

The risk	Our response
Calculation error and data capture: The Group uses complex actuarial models to calculate insurance contract liabilities. There is the risk that the modelling does not appropriately reflect the model specifications, including model calibrations, and/or the product features and/or there are unauthorised or erroneous changes to the models. In addition, there is a risk that data input into the models may be incomplete. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of insurance contract liabilities has a high degree of estimation uncertainty, with a potential range of reasonably possible outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. Note 33 discloses the sensitivities estimated by the Group.	– Assessed whether the expense assumptions reflect the expected future costs of administering the underlying policies by analysing current year unit costs, considered the expected future level of expense inflation and assessed the appropriateness of the likely impact of planned management actions on future costs. – Evaluated the evidence used to determine the assumption related to the number of policyholders who may exercise the option to defer their retirement date at maturity in future periods in order to assess whether this supports the assumption adopted. **Benchmarking assumptions and sector experience:** – Evaluated the credit risk methodology and assumptions by reference to industry practice and our expectation derived from market experience including assessing the impact of COVID-19 on the economic environment. – Evaluated the appropriateness of the calibration of the Continuous Mortality Investigation ('CMI') Model (the CMI Bureau releases industry wide mortality tables), adopted based on the analysis of the characteristics of the policyholder population and actual mortality experience. – Used the results of our industry benchmarking of assumptions and actuarial market practice to inform our challenge of the assumptions in relation to the mortality and credit risk. **Model evaluation:** – Used our own valuation models to perform an independent recalculation of a sample of insurance liabilities to ensure that the models have been calibrated in line with the Group's specifications and product features. – Evaluated that changes made to the actuarial models over the year have been appropriately reviewed and approved; and evaluated the appropriateness of the financial impact of the changes made to the models during the year. **Assessing transparency:** – Considered whether the disclosures in relation to the assumptions used in the calculation of insurance contract liabilities are compliant with the relevant accounting requirements and appropriately represent the sensitivities of these assumptions to alternative scenarios and inputs. **Our results** – We found the valuation of insurance contract liabilities to be acceptable (2020 result: acceptable).

	The risk	Our response

Valuation of investments that require judgement
(£46,197 million; 2020: £43,368 million)
The risk has decreased compared to the prior year.
Refer to page 188-189 (accounting policy) and page 243-254 (financial disclosures of level 3 assets).
	Subjective valuation:
	The areas that involve significant audit effort and judgement are the valuation of illiquid positions within the financial investments portfolio representing 25% (2020: 24%) of the Group's total investments portfolio. We consider the risk to have decreased as the uncertainties associated with the ongoing impact of COVID-19 on the outlook for financial markets has reduced over the year.
	These include private placement loans, unlisted Net Asset Value ('NAV') funds, equity release mortgages, terminal value loans and investment properties.
	For these positions an observable price was not readily available and therefore, the application of expert judgement in the valuations adopted is required that results in estimation uncertainty.
	The effect of this matters is that, as part of our risk assessment, we determined that the valuation of investments that require judgement has a high degree of estimation uncertainty, with a potential range of reasonably possible outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. Note 33 discloses the sensitivities estimated by the Group.
		We used our own actuarial and valuation specialists to assist us in performing our procedures in this area.
		Our procedures include:
		– **Control design and observation:** Tested the design, implementation and operating effectiveness of key controls over the valuation process for the investments, including review and approval of the estimates and assumptions used for the valuation.
		– **Methodology choice:** Assessed the appropriateness of the pricing methodologies with reference to relevant accounting standards and the Group's own valuation guidelines as well as industry practice.
		– **Benchmarking of assumptions and sector experience:** Agreed the key inputs and assumptions used for the valuation and compared these to our own market and industry benchmarks.
		– **Assessing valuers' credentials:** Assessed the competence and qualifications of external valuers and reconciled the valuations provided by them to the valuations recorded by the Group.
		– **Tests of detail:**
		  – Independently re-performed our own valuation for private placement loan investments and compared the output to the Group's valuations.
		  – Independently obtained the most recent NAV statements, investment manager and administrator control reports to assess the appropriateness of the fair value of the unlisted funds.
		  – Performed a retrospective test over the NAV valuations for each fund to assess if the fund valuations reported in the audited financial statements in the prior year were materially consistent with the NAV valuation statements available at the time.
		– **Assessing transparency:** Assessed whether the Group's disclosures in relation to the valuation of investments are compliant with the relevant accounting requirements and appropriately present the unobservable inputs and sensitivities in the valuations based on alternative outcomes.
		Our results
		– We found the valuation of investments that require judgement to be acceptable (2020: result: acceptable).

	The risk	Our response

Recoverability of the Company's investment in subsidiaries
(£10,524 million; 2020: £10,494 million)
The risk has remained unchanged compared to the prior year.
Refer to page 294 (accounting policy) and page 296-297 (financial disclosures).
	Forecast-based assessment:
	The Company holds its investment in subsidiaries at cost less impairment, representing 85% (2020: 90%) of the Company's total assets.
	The carrying amount of the Company's investment in subsidiaries is material in the context of the Company financial statements. Volatility in the share price and the resulting market capitalisation may result in there being an impairment indicator. The measurement of any such impairment has a higher degree of estimation uncertainty.
	The estimated recoverable amount of these balances is dependant on certain key assumptions. Where the recoverable amount is based on the value in use these include the Group's forecasted future cash flows and the discount rate.
	Where the recoverable amount is based on the fair value less cost of disposal these include earnings multiples, control premiums and liquidity discounts.
	The resulting recoverable amounts are subjective due to the inherent uncertainty in these assumptions.
	The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount of the cost of investment in subsidiaries has a high degree of estimation uncertainty, with a potential range of reasonably possible outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The Company financial statements (Note A) disclose the sensitivity estimated by the Company.
		Our procedures include
		– **Control design and observation:** Evaluated the design and implementation of key controls within the impairment in subsidiaries assessment procedures. We performed the tests below rather than seeking to rely on any of the group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.
		– **Benchmarking assumptions and sector experience:**
		  – Challenged the cash flows included in the forecasts based on our knowledge of the Group and the markets in which the subsidiaries operate.
		  – Where value in use methodology is applied, challenged the reasonableness of the cash flow projections against historical performance and challenged the appropriateness of the discount rate applied based on our industry experience.
		  – Where fair value methodology is applied, challenged the appropriateness of the earnings multiples, including the control premium and discount for lack of marketability assumptions based on our knowledge of the markets in which the subsidiaries operate and industry experience.
		– **Historical comparisons:** Assessed the reasonableness of the budgets by considering the historical accuracy of the previous forecasts.
		– **Comparing valuations:** Compared and reconciled the recoverable amount for the Company's investment in subsidiaries to the market capitalisation of the Group and challenging any significant differences.
		– **Our sector experience:** : Evaluated the current level of trading, including identifying any indications of a downturn in activity, by examining the post year end management accounts and considering our knowledge of the Group and the market.
		– **Assessing transparency:** Assessed the adequacy of the Company's disclosures in respect of the investment in subsidiaries balance.
		Our results
		– We found the balance of the Company's investment in subsidiaries to be acceptable (2020: acceptable).

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £60m (2020: £60m), determined with reference to a benchmark of net assets of which it represents 1.1% (2020: 1.1%). We consider net assets to be the most appropriate benchmark as it provides a more stable measure year on year than group profit before tax.

In addition, we applied materiality of £200m (2020: £200m) to the with- profits and unit-linked assets and liabilities in the consolidated statement of financial position, consolidated income statement and related notes, determined with reference to the lower of a benchmark of the unallocated surplus of the With-Profits Fund of which it represents 1.4% (2020: £1.3%), and a benchmark of total unit linked assets as disclosed in note 32 of which it represents 0.9% (2020: 0.8%). This materiality was applied solely for our work on matters for which a misstatement is likely only to lead to a reclassification between line items within assets and liabilities and associated income statement balances, in accordance with FRC Practice Note 20 The Audit of Insurance in the United Kingdom.

Materiality for the Company financial statements as a whole was set at £55m (2020: £55m), determined with reference to a benchmark of total assets and chosen to be lower than materiality for the Group financial statements as a whole. It represents 0.4% (2020: 0.5%) of the stated benchmark.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality for the Group and Company was set at 75% (2020: 75%) of materiality for the financial statements as a whole. For the Group, this equates to £45m (2020: £45m) for the financial statements as a whole and £150m (2020: £150m) for with-profits and unit- linked assets and liabilities, and £41m (2020: £41m) for the Company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the audit committee any corrected or uncorrected identified misstatements exceeding £3m (2020: £3m) and £10m for the with-profits and unit-linked assets and liabilities, in addition to other identified misstatements that warranted reporting on qualitative grounds.

The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Company's internal control over financial reporting.

Of the Group's 16 (2020: 12) reporting components, we subjected 2 (2020: 2) to full scope audits for Group purposes, 9 (2020: 9) to audit of account balance and 5 (2020: 1) to specified risk-focused audit procedures. The latter were not individually financially significant enough to require a full scope audit for Group purposes, but did present specific individual risks that needed to be addressed. The components within the scope of our work accounted for the percentages illustrated opposite. For the residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

Total Net Assets
£5,345 (2020: £5,585m)

Group materiality
£60m (2020: £60m)

£60m
Whole financial statements materiality (2020: £60m)

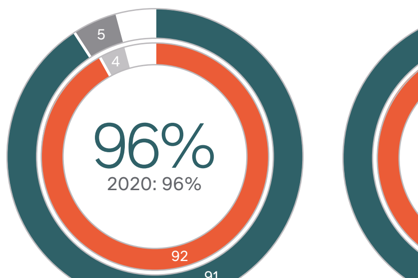
£45m
Whole financial statements performance materiality (2020: £45m)

£53m
Range of materiality at 16 components (£5m-£53m) (2020: £5m to £53m)

£3m
Misstatements reported to the audit committee (2020: £3m)

- Total Net Assets
- Group materiality

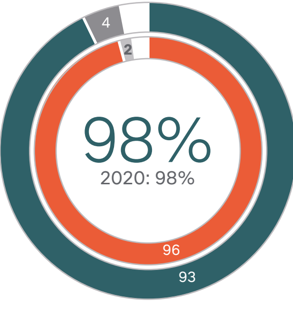
Group net assets



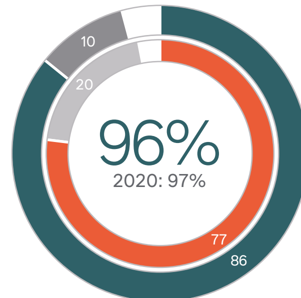
Group profit before tax

3
2
98%
2020: 98%
96
95

Group revenue



Group total assets



- Full scope for group audit purposes 2021
- Audit of account balance and specified risk-focused audit procedures 2021
- Full scope for group audit purposes 2020
- Audit of account balance and specified risk-focused audit procedures 2020
- Residual components

The Group audit team held a global planning conference with component auditors to identify audit risks and decide how each component team should address the identified audit risks. The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £5m to £53m, having regard to the mix of size and risk profile of the Group across the components. For the relevant components, we also applied a materiality which ranged from £40m to £175m to the with-profits and unit-linked assets and liabilities in the consolidated statement of financial position, consolidated income statement and related notes. The work over 9 of the 16 components was performed by component auditors and the rest was performed by the Group Team. The audit of the Company was also performed by the Group team.

Whilst it would be conventional practice to visit component teams, the ongoing impact of COVID-19 on restricting travel has again required an alternative approach this year, which required more extensive use of video and telephone conference meetings with component auditors. During these video and telephone conference meetings, an assessment was made of audit risk and strategy, the findings reported to the Group audit team were discussed in more detail, key working papers were inspected and any further work required by the Group audit team was then performed by the component auditor. The Group audit team routinely conducted remote file reviews to evaluate whether work performed by all component audit teams over significant risk and other relevant audit areas was sufficient.

The Senior Statutory Auditor, in conjunction with other senior staff in the Group and component audit teams, also attended selected component audit committee meetings and participated in meetings with local components to obtain additional understanding, first hand, of the key risks and audit issues at a component level which might affect the Group.

4. The impact of climate change on our audit

In planning our audit, we have considered the potential impact of climate change on the Group's business and its financial statements.

Climate change impacts the business in a number of ways including through its own operations, with transition risks associated with the Group's delivery of its sustainable ambitions and the financial risks that investments are exposed to from the associated physical and transitional risks.

Whilst the risks associated with climate change are more likely longer-term in nature, given the associated uncertainty and the scale of its potential impact, this could warrant revisiting the basis on which climate considerations are factored into goodwill assessments and unlisted asset valuations.

The risks associated can necessitate increased disclosure in this period, as disclosed in Note 32 for investment property, and through the transitional risks which may impact on AUMA flows as disclosed in Note 12, but are more likely to have a greater impact in future periods.

The Group has set out its commitments under the Paris objective to net zero carbon emissions by 2030 within their own business and 2050 across all investments portfolios in Climate change and TCFD disclosures on page 45.

We have performed a risk assessment, including making enquiries of management to understand the extent of the potential impact of climate change risk on the Company's financial statements and our audit, including how climate is considered as part of the investment making and monitoring processes, and the Company's preparedness for this.

Our risk assessment included evaluating the impact of stress test scenarios and holding discussions with our own climate change professionals to challenge our audit approach. On the basis of the risk assessment procedures performed above, and taking into account the nature of assets and related valuations, and the extent of the headroom on impairment tests, we concluded that, while climate change posed a risk to the determination of asset values, the risk was not significant in the current year. As a result, there was no material impact from climate on our key audit matters.

We have also read the disclosures of climate related information in the front half of the annual report and accounts as set out on pages 44 to 57, and considered consistency with the financial statements and our audit knowledge.

5. Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We have used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- Adverse impacts arising from fluctuations or negative trends in the economic environment including, but not limited to, wider credit spreads and defaults which affect regulatory capital solvency coverage ratios, liquidity ratios, the valuations of the Group's investments and valuation of insurance contract liabilities;
- Adverse fund outflows, policyholder lapse or claims experience.

We also considered less predictable but realistic second order impacts, such as the failure of counterparties who have transactions with the Group (such as banks and reinsurers), which could result in a rapid reduction of available financial resources.

We considered whether these risks could plausibly affect the solvency and liquidity in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by the Group's financial forecasts.

We also consider whether the going concern disclosure in Note 1 gives a full and accurate description of the director's assessment of going concern, including the identified risks, and dependencies, and related sensitivities.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period; and
- we have nothing material to add or draw attention to in relation to the Directors' statement on page 164 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for the going concern period, and we found the going concern disclosure in Note 1 to be acceptable
- the related statement under the Listing Rules set out on page 178 is materially consistent with the financial statements and our audit knowledge.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

6. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risk of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee, internal audit, management and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, audit committee, and risk committee meeting minutes
- Considering remuneration incentive schemes and performance targets for management and directors, including short term and long term incentive plans.
- Using analytical procedures to identify any usual or unexpected relationships.
- Using our own forensic specialists to assist us in identifying fraud risks based on discussions of the circumstances of the Group.
- Inspecting correspondence with regulators to identify instances or suspected instances of fraud.
- Reviewing the audit misstatements from prior period to identify fraud risk factors.
- Reading broker reports and other public information to identify third-party expectations and concerns.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the Group audit team to all component audit teams of relevant fraud risks identified at the Group level and request to component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at the Group level.

As required by auditing standards, and taking into account possible pressures to meet profit targets, recent revisions to guidance and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that Group and component management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as the valuation of insurance contract liabilities and valuation of investments that require judgment.

On this audit we do not believe there is a fraud risk related to revenue recognition as there is limited management judgement in the determination of all material revenue streams.

We identified a fraud risk related to:

- The valuation of insurance contract liabilities in response to the required significant judgement by management over uncertain future outcomes, being the ultimate total settlement value of long-term insurance liabilities. In order to address the risk of fraud to the valuation of insurance contract liabilities, we involved actuarial specialists to assist in our challenge of management. We challenged management in relation to the selection of assumptions to assess if there are indications of management basis.
- The valuation of investments that require judgment in response to the high degree of estimation uncertainty due to the illiquid positions within the financial investments portfolio and lack of readily available observable price. In order to address the risk of fraud to the valuation of investment that require judgement, we involved valuation and actuarial specialists to assist in our challenge of management. We challenged management in relation to the selection of assumptions to assess if there are indications of management basis.

Further detail on the procedures performed over these balances is set out in the key audit matter disclosures in section 2 of this report.

We also performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by unauthorised personnel and those posted with unusual description.
- Evaluating the business purpose of any significant unusual transactions.
- Assessing significant accounting estimates for bias, including assessing the valuation of insurance contract liabilities and valuation of investment that require judgement for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence; and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at the Group level, and a request for component auditors to report to the Group team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at Group.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, pensions legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's license to operate. We identified the areas of regulatory capital and liquidity, market abuse, financial crime and customer conduct regulations as those most likely to have such an effect recognising the financial and regulated nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

For the pension mis-selling review disclosed in Note 34.3.1 we have performed audit procedures over the provisions established by management.

As set out on page 77 of the Strategic Report, M&G plc faces the potential risk of the facilitation of financial crime and continues with the programme of work to ensure that the controls that operate across the Group are sufficiently comprehensive and resilient to mitigate this risk in line with relevant legal and regulatory requirements, and complete any necessary remediation where appropriate. We made enquiries of the directors and management to understand progress and inspected related correspondence with the Group's regulators in order to consider the implications for our audit.

We discussed with the audit committee other matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

7. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the Viability statement page 37 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risk and Emerging Risks disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the directors' explanation in the Viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the Viability statement, set out on page 37 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- the directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- the section of the Annual Report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the statement on Corporate Governance relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

8. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

9. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 164, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

10. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Stuart Crisp (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square
Canary Wharf
London
E14 5GL

7 March 2022

Consolidated income statement

For the year ended 31 December	Note	2021 £m	2020 £m
Gross premiums earned		**4,784**	5,796
Outward reinsurance premiums		**(1,019)**	(927)
Earned premiums, net of reinsurance		**3,765**	4,869
Investment return	4	**12,909**	9,255
Fee income	5	**983**	1,031
Other income		**115**	61
Total revenue, net of reinsurance		**17,772**	15,216
Benefits and claims	26	**(3,551)**	(12,674)
Outward reinsurers' share of benefit and claims	26	**(8,480)**	1,477
Movement in unallocated surplus of the With-Profits Fund	26	**(1,052)**	433
Benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance		**(13,083)**	(10,764)
Administrative and other expenses	6	**(2,884)**	(2,734)
Movements in third-party interest in consolidated funds		**(1,019)**	109
Finance costs	6	**(160)**	(167)
Total charges, net of reinsurance		**(17,146)**	(13,556)
Share of profit/(loss) from joint ventures and associates	14	**81**	(55)
Profit before tax[i]		**707**	1,605
Tax charge attributable to policyholders' returns	9	**(626)**	(208)
Profit before tax attributable to equity holders		**81**	1,397
Total tax charge	9	**(615)**	(463)
Less tax charge attributable to policyholders' returns		**626**	208
Tax credit/(charge) attributable to equity holders	9	**11**	(255)
Profit for the year		**92**	1,142
Attributable to equity holders of M&G plc		**83**	1,138
Attributable to non-controlling interests		**9**	4
Profit for the year		**92**	1,142
Earnings per share:			
Basic (pence per share)	10	**3.3**	44.4
Diluted (pence per share)	10	**3.2**	44.0

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

The Notes on pages 181 to 290 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December	Note	2021 £m	2020 £m
Profit for the year		**92**	1,142
Items that may be reclassified subsequently to profit or loss:			
Exchange movements arising on foreign operations	25	**(13)**	3
Other comprehensive (loss)/income on Items that may be reclassified subsequently to profit or loss		**(13)**	3
Items that will not be reclassified to profit or loss:			
Gain/(loss) on remeasurement of defined benefit pension schemes	17	**71**	(117)
Tax on remeasurement of defined benefit pension schemes	9	**(19)**	23
		52	(94)
Add amount transferred to unallocated surplus of the With-Profits Fund, net of related tax		**(2)**	13
Other comprehensive income/(loss) on items that will not be reclassified to profit or loss		**50**	(81)
Other comprehensive income/(loss) for the year, net of related tax		**37**	(78)
Total comprehensive income for the year		**129**	1,064
Attributable to equity holders of M&G plc		**120**	1,060
Attributable to non-controlling interests		**9**	4
Total comprehensive income for the year		**129**	1,064

The Notes on pages 181 to 290 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 31 December	Note	2021 £m	2020 £m
Assets			
Goodwill and intangible assets	12	**1,615**	1,495
Deferred acquisition costs	13	**94**	98
Investment in joint ventures and associates accounted for using the equity method	14	**469**	456
Property, plant and equipment	15	**2,536**	2,066
Investment property	16	**19,698**	19,106
Defined benefit pension asset	17	**38**	58
Deferred tax assets	9	**119**	108
Reinsurance assets	26	**1,669**	11,761
Loans	18	**5,809**	6,031
Derivative assets		**3,373**	5,705
Equity securities and pooled investment funds		**74,069**	68,419
Deposits		**17,633**	17,629
Debt securities		**81,059**	85,439
Current tax assets	9	**375**	418
Accrued investment income and other debtors	20	**2,647**	3,023
Assets held for sale[i]		**1,023**	138
Cash and cash equivalents	21	**6,908**	6,776
Total assets		**219,134**	228,726
Equity			
Share capital	22	**130**	130
Share premium reserve	22	**370**	370
Shares held by employee benefit trust	23	**(93)**	(117)
Treasury shares	23	**(1)**	(1)
Retained earnings	24	**16,550**	16,853
Other reserves	25	**(11,660)**	(11,658)
Equity attributable to equity holders of M&G plc		**5,296**	5,577
Non-controlling interests		**49**	8
Total equity		**5,345**	5,585
Liabilities			
Insurance contract liabilities	26	**63,223**	76,650
Investment contract liabilities with discretionary participation features	26	**82,743**	79,623
Investment contract liabilities without discretionary participation features	26	**14,884**	15,547
Unallocated surplus of the With-Profits Fund	26	**16,723**	15,621
Third party interest in consolidated funds		**12,636**	13,265
Subordinated liabilities and other borrowings	27	**8,930**	8,267
Defined benefit pension liability	17	**84**	170
Deferred tax liabilities	9	**1,157**	916
Current tax liabilities	9	**323**	276
Derivative liabilities		**2,689**	3,460
Lease liabilities	28	**413**	354
Other financial liabilities		**2,882**	3,391
Provisions	29	**138**	235
Accruals, deferred income and other liabilities	30	**6,964**	5,291
Liabilities held for sale[i]		**–**	75
Total liabilities		**213,789**	223,141
Total equity and liabilities		**219,134**	228,726

i Assets held for sale on the consolidated statement of financial position as at 31 December 2021 includes £127m (2020: £18m) of seed capital and £896m of investment property (2020: £24m) that are expected to be divested within 12 months. Additionally, in 2020 £96m of assets and £75m of liabilities held for sale are in relation to the Group's consolidated infrastructure capital private equity vehicles.

The Notes on pages 181 to 290 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 176 to 290 were approved by the Board and signed on its behalf by the following Directors on 7 March 2022:

John Foley Chief Executive

Clare Thompson Audit Committee Chair

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 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	24,25	**–**	**–**	**–**	**–**	**50**	**(13)**	**37**	**–**	**37**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**133**	**(13)**	**120**	**9**	**129**
Non-controlling interests arising through business combinations	2	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**38**	**38**
Dividends paid to equity holders of M&G plc	11	**–**	**–**	**–**	**–**	**(466)**	**–**	**(466)**	**–**	**(466)**
Dividends paid to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(6)**	**(6)**
Shares distributed by trusts	24	**–**	**–**	**24**	**–**	**(24)**	**–**	**–**	**–**	**–**
Vested employee share-based payments	24,25	**–**	**–**	**–**	**–**	**33**	**(33)**	**–**	**–**	**–**
Expense recognised in respect of share-based payments	25	**–**	**–**	**–**	**–**	**–**	**40**	**40**	**–**	**40**
Tax effect of items recognised directly in equity	24,25	**–**	**–**	**–**	**–**	**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**

	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 2020		130	370	(26)	(1)	16,342	(11,690)	5,125	6	5,131
Profit for the year		–	–	–	–	1,138	–	1,138	4	1,142
Other comprehensive income for the year	24, 25	–	–	–	–	(81)	3	(78)	–	(78)
Total comprehensive income for the year		–	–	–	–	1,057	3	1,060	4	1,064
Dividends paid to equity holders of M&G plc	11	–	–	–	–	(562)	–	(562)	–	(562)
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	(2)	(2)
Shares distributed by trusts	24	–	–	14	–	(14)	–	–	–	–
Vested employee share-based payments	24,25	–	–	–	–	17	(17)	–	–	–
Expense recognised in respect of share-based payments	25	–	–	–	–	–	51	51	–	51
Shares acquired by trusts		–	–	(105)	–	–	–	(105)	–	(105)
Tax effect of items recognised directly in equity	25	–	–	–	–	13	(5)	8	–	8
Net (decrease)/increase in equity		–	–	(91)	–	511	32	452	2	454
As at 31 December 2020		130	370	(117)	(1)	16,853	(11,658)	5,577	8	5,585

The Notes on pages 181 to 290 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December	Note	2021 £m	2020 £m
Cash flows from operating activities:			
Profit before tax		**707**	1,605
Non-cash and other movements in operating assets and liabilities included in profit before tax:			
Investments		**(804)**	399
Other non-investment and non-cash assets[i]		**10,524**	(133)
Policyholder liabilities (including unallocated surplus)[i]		**(9,846)**	(895)
Other liabilities (including operational borrowings)		**1,280**	1,902
Interest income, interest expense and dividend income		**(4,028)**	(3,884)
Other non-cash items		**(465)**	229
Operating cash items:			
Interest receipts and payments		**2,189**	2,282
Dividend receipts		**2,066**	1,704
Tax paid[ii]		**(315)**	(633)
Net cash flows from operating activities[iii]		**1,308**	2,576
Cash flows from investing activities:			
Purchases of property, plant and equipment		**(770)**	(821)
Proceeds from disposal of property, plant and equipment		**41**	–
Net divestment/(investment) in subsidiaries[iv]		**263**	(136)
Net cash flows from investing activities		**(466)**	(957)
Cash flows from financing activities:			
Interest paid		**(186)**	(189)
Lease repayments	28	**(35)**	(24)
Shares purchased by employee benefit trust		**–**	(105)
Dividends paid	11	**(466)**	(562)
Net cash flows from financing activities		**(687)**	(880)
Net increase in cash and cash equivalents		**155**	739
Cash and cash equivalents at 1 January		**6,776**	6,046
Effect of exchange rate changes on cash and cash equivalents		**(23)**	(9)
Cash and cash equivalents at 31 December		**6,908**	6,776

i Other non-investment and non-cash assets and Policyholder liabilities (including unallocated surplus) for the year-ended 31 December 2021 includes the impact of the Part VII transfer of annuities business to Rothesay Life PLC. See Note 2.2.1 for further details.

ii Tax paid for the year ended 31 December 2021 includes £173m (2020: £264m) paid on profits taxable at policyholder rather than shareholder rates.

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

iv Net divestment/(investment) in subsidiaries includes further investment, or divestment, by the Group's consolidated private equity vehicles. For the year ended 31 December 2021, £250m related to divestment by these vehicles, with an additional £13m cash acquired in relation to the acquisition of PPMSA. For the year ended 31 December 2020, £50m related to investments made by these vehicles, and also includes total cash paid in respect of the acquisition of Ascentric for £86m, of which £49m represented a repayment of loan to Royal London.

The Notes on pages 181 to 290 are an integral part of these consolidated financial statements.

1 Basis of preparation and significant accounting policies

1.1 Basis of preparation

The consolidated financial statements for the year ended 31 December 2021 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.

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 assumptions 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 and the management actions that could be used to manage liquidity.

In addition, the Directors also gave particular attention to the solvency projections of the Group under a base scenario and its sensitivity to various individual economic stresses and certain stressed scenarios.

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

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

The scenarios considered as part of the assessment included a range of different COVID scenarios (base, optimistic and pessimistic) taking into account the global roll out of the vaccination programme and the impact on global economic recovery. 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 debtholders, and future business requirements for the foreseeable future. In addition, the assessment demonstrated that the Group was able to remain above its regulatory solvency requirements in a stressed scenario.

For this reason, the Directors continue to adopt the going concern basis in preparing the consolidated 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:

Amendments to IFRS 4, IFRS 7, IFRS 16 and IAS 39: Interest rate benchmark reform – Phase 2 amendments

The Phase 2 amendments allow a practical expedient where any changes in the fair value of financial instruments as a direct consequence from the Interbank offered rate (IBOR) reform are managed by updating the effective interest rate, therefore removing the recognition of gains or losses in the income statement as a result of the reform. This is also applicable for leases accounted for under IFRS 16, where a revised discount rate is applied to reflect the change in interest rates. These amendments also allow relief from applying specific hedge accounting and financial instrument de-recognition requirements which would result from the IBOR reform. However, similar to the Phase 1 amendments, there is no exception from the measurement requirements that apply for the hedged items and hedging instruments under IFRS 9 or IAS 39 Financial Instruments: Recognition and Measurement. Once the new benchmark rate is in place, the hedged items and hedging instruments are remeasured based on the new rate and any hedge ineffectiveness will be recognised in profit or loss.

The Group has a formal programme in place to facilitate the transition of all impacted instruments to the alternative benchmark rate. The main exposure of the Group is to the phase out of sterling LIBOR rates which was the benchmark rate for various derivative and non-derivative financial positions.

In relation to derivative positions, the Group had signed up to the ISDA LIBOR fallbacks protocol and this resulted in the vast majority of its sterling LIBOR linked positions transitioning at the end of 2021 as per the ISDA fallbacks. A small number of sterling LIBOR derivative positions were not covered by the protocol and will be transitioned separately. These may make use of Synthetic LIBOR where transition is not completed ahead of the next fixing date.

1 Basis of preparation and significant accounting policies continued

In regards to non-derivative assets, transition of those referencing sterling LIBOR has been partial as dependencies exist on instrument issuers and on authority approvals in the case of infrastructure lending. The instruments that have not transitioned can make use of “Synthetic LIBOR” at least within 2022 until they complete transition. The transitioned instruments have used replacement rates and spreads that result in valuations not changing significantly.

The transition to the alternative benchmark rates did not have a significant impact on the consolidated financial statements for the year ended 31 December 2021.

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.

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.

The Group is assessing the impact of IFRS 9 and implementing this standard in conjunction with IFRS 17. The adoption of IFRS 9 may result in the reclassification of certain of the Group’s financial assets, resulting in a change in measurement basis from amortised cost to fair value. Furthermore, a revised impairment approach based on expected credit losses will need to be developed for financial assets that will continue to be carried at amortised cost. The Group is currently assessing the scope of assets to which these requirements will apply.

The Group does not currently apply hedge accounting.

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

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

1 Basis of preparation and significant accounting policies continued

	Financial assets that pass the SPPI test		All other financial assets, net of derivative liabilities[i]	
Financial assets on the consolidated statement of financial position	Fair value as at 31 December 2020 £m	Movement in fair value during the year £m	Fair value as at 31 December 2020 £m	Movement in fair value during the year £m
Loans	2,647	(14)	3,475	33
Derivative assets – net of derivative liabilities	–	–	2,245	1,527
Equity securities and pooled investment funds	–	–	68,419	(533)
Deposits	17,629	–	–	–
Debt securities	–	–	85,439	4,092
Accrued investment income and other debtors	3,023	–	–	–
Cash and cash equivalents	6,776	–	–	–
Total financial assets, net of derivative liabilities	30,075	(14)	159,578	5,119

IFRS 17: Insurance Contracts

In May 2017, the IASB issued IFRS 17: Insurance Contracts (IFRS 17) to replace the existing interim standard, IFRS 4 Insurance Contracts. The standard initially applied to annual periods beginning on or after 1 January 2021, subsequently, the IASB issued an exposure draft in June 2019 that proposed to delay the effective date to 1 January 2022. Thereafter, in March 2020, the IASB decided to delay the effective date further to 1 January 2023, which was duly affected through an amendment in the standard in June 2020. Early application is permitted; provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Group intends to adopt the new standard on its mandatory effective date, alongside the adoption of IFRS 9.

IFRS 4 permitted insurers to continue to use the basis of accounting for insurance assets and liabilities that existed in their jurisdictions prior to January 2005 (details of these can be found in note 1.5.2). IFRS 17 replaces this with a new measurement model for all insurance contracts.

IFRS 17 requires liabilities for insurance contracts to be recognised as the present value of future cash flows, plus an explicit risk adjustment, which is updated at each reporting date to reflect current conditions, and a contractual service margin (CSM) that is equal and opposite to any day-one gain arising on initial recognition. Losses are recognised directly in the income statement. For measurement purposes, contracts are grouped together into contracts of similar risk, profitability profile and issue year, with further divisions for contracts that are managed separately.

Profit before tax from insurance contracts under IFRS 17 is represented by the recognition of the services provided to policyholders in the period (release of the CSM), release from non-economic risk (release of risk adjustment) and investment profit.

The CSM is released as profit over the coverage period of the insurance contract, reflecting the delivery of services to the policyholder. For certain contracts with participating features (where a substantial share of the fair value of the related investments and other underlying items is paid to policyholders) such as the Group's with-profits products and certain unit-linked products, the CSM reflects the variable fee to shareholders. For these contracts, the CSM is adjusted to reflect the changes in economic experience and assumptions. For all other contracts the CSM is only adjusted for non-economic assumptions.

IFRS 17 introduces a new measure of insurance revenue, based on the delivery of services to policyholders and excluding any premiums related to the investment elements of policies, which will be significantly different from existing premium revenue measures currently reported in the income statement. In order to transition to IFRS 17, the amount of deferred profit, being the CSM at transition date, needs to be determined.

IFRS 17 requires this CSM to be calculated as if the standard had applied retrospectively. However, if this is not practical an entity is required to choose either a simplified retrospective approach or to determine the CSM by reference to the fair value of the liabilities at the transition date. The approach for determining the CSM will have a significant impact on both shareholders' equity and on the amount of profits on in-force business in future reporting periods.

The Group has an ongoing project to implement IFRS 17 which is finalising technical interpretations and the related operational capabilities to implement the standard by the revised adoption date of 1 January 2023. The financial impact from adoption of the standard is currently being assessed and understood by management, however it will lead to significant changes to the presentation and disclosure in the consolidated financial statements.

1 Basis of preparation and significant accounting policies continued

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:

- 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
- 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

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.

1.3 Key judgements in applying accounting policies

A full list of the Group's significant accounting policies is provided in Section 1.5 of this Note. In applying these accounting policies, the Group has made a number of key judgements which have a significant effect on the amounts recognised in the consolidated financial statements. The following table sets out the basis of these judgements, and references the associated accounting policy and related Note which both give further detail on the specific application.

Financial statement area	Key judgement	Accounting policy	Note
Consolidation of structured entities	IFRS 10 requires entities that the Group controls to be consolidated in the consolidated financial statements. Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Due to the nature of structured entities, judgement is required to determine whether the Group controls and therefore consolidates the structured entities. Judgement is also required where certain seed capital investments in structured entities are classified as held for sale investments, and therefore not consolidated on a line by line basis.	1.5.1	31
Classification of insurance and investment contracts	IFRS 4 requires contracts that transfer significant insurance risk to be accounted for as insurance contracts. Judgement is required to determine whether contracts written by the Group transfer significant insurance risk. Judgement is also required in the case of certain contracts, both investment and insurance, which provide an additional benefit in addition to guaranteed benefits to determine whether they meet the criteria to be considered as discretionary participation features.	1.5.2	26

1.4 Sources of estimation uncertainty

The preparation of these consolidated financial statements requires the Group to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. The following table sets out the assets and liabilities measured using assumptions and estimates which have a significant risk of resulting in a material adjustment to their carrying value within the next financial year. Details of the nature of the estimate is provided in the related accounting policy and details of the assumptions applied at the statement of financial position date are provided in the related Note.

1 Basis of preparation and significant accounting policies continued

Financial statement asset or liability	Key estimate and assumptions	Accounting policy	Note
Insurance contract liabilities	When measuring insurance contract liabilities, a number of assumptions are applied to estimate future amounts due to the policyholder. The areas where the assumptions could have a material impact are the assumed rates of policyholder mortality, maintenance expenses and the valuation rate of interest used when establishing policyholder liabilities for annuities and also the assumptions used in determining the allowance for maintenance expenses within the policyholder liabilities other than annuities.	1.5.2	26, 33
Assets classified as level 3 under the fair value hierarchy	Determination of fair value of financial assets classified as level 3 in the fair value hierarchy involves the use of inputs which are not observable in the market and hence require a high degree of estimation which could result in a significant change in the valuation.	1.5.4, 1.5.14	19, 32
Determination of recoverable amount of goodwill	Goodwill is assessed for impairment at least on an annual basis by comparing the recoverable amount of each cash-generating unit or group of cash-generating units to which goodwill has been allocated with its carrying value. Recoverable amount is defined as the higher of fair value less costs to sell and the value in use where the value in use is based on the present value of future cashflows. The determination of the value in use requires the use of various assumptions around future cash flows, future growth rates and appropriate discount rates based on the risks associated with the cash-generating-unit or group of cash-generating units which can have a material impact on the calculation.	1.5.17	12
Defined benefit pension liability	The defined benefit pension scheme liability is calculated using actuarial valuations which incorporate a number of assumptions including discount rates, inflation rates, and expected future mortality. Due to the long-term nature of the schemes, the value of the pension scheme obligation is sensitive to these assumptions.	1.5.15	17
Provisions relating to past conduct issues	The determination of provisions relating to past conduct issues pertaining to pensions mis-selling requires the use of various assumptions which can impact the carrying values either when recognised separately, or when included within the valuation of insurance contract liabilities.	1.5.31	29, 34
Valuation of intangibles acquired at acquisition	Valuation of intangibles acquired as part of a business combination are based on various assumptions around future business growth and appropriate discount rates which can have a material impact on the valuation.	1.5.18	12

1.5 Accounting policies

1.5.1 Basis of consolidation

The Group has control over an investee if all three of the following conditions are met: (i) it has power over an investee; (ii) it is exposed to, or has rights to, variable returns from its involvement with the investee; and (iii) it has the ability to use its power over the investee to affect its own returns.

(i) Subsidiaries

Subsidiaries are those investees that the Group controls. Where the Group is deemed to control an entity, the entity is treated as a subsidiary and its results, assets and liabilities are consolidated. Where the Group holds a minority share in an entity but does not have control, joint control or significant influence over the entity, the investments are carried at fair value through profit or loss (FVTPL) within financial investments in the consolidated statement of financial position.

The Group performs a reassessment of consolidation whenever there is a change in the substance of the relationship between the Group and an investee.

(ii) Joint ventures and associates

Joint ventures are joint arrangements arising from a contractual agreement whereby the Group and other investors have joint control of the net assets of the arrangement. In these arrangements, the Group's share of the underlying net assets may be lower or higher than 50% but the terms of the relevant agreement make it clear that control is jointly exercised between the Group and the third party, for example, where significant decisions required unanimous approval of all parties, or where all parties have equal voting rights.

Associates are entities over which the Group has significant influence, but which it does not control. Generally, it is presumed that the Group has significant influence if it holds between 20% and 50% of the voting rights of the entity.

Investments in associates and joint ventures held by the Group's insurance or investment funds, including venture capital business, mutual funds and unit trusts, are accounted for at FVTPL. All other investments in joint ventures and associates are accounted for using the equity method of accounting. Under the equity method, the Group's share of profit or loss of its joint ventures and associates is recognised in the income statement and its share of movements in other comprehensive income is recognised in other comprehensive income.

1 Basis of preparation and significant accounting policies continued

(iii) Structured entities

Structured entities are those that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Voting rights relate to administrative tasks. Relevant activities are directed by means of contractual arrangements. The Group invests in structured entities such as:

- Collective investment vehicles including open-ended investment companies (OEICs), Authorised Contractual Schemes (ACSs) and Luxembourg-domiciled Sociétés d'Investissement à Capital Variable (SICAVs)
- Limited partnerships
- Collateralised debt obligations
- Mortgage-backed securities
- Similar asset-backed securities.

Collective investment vehicles

The Group invests in OEICs, ACSs, SICAVs and unit trusts, which invest mainly in equities, bonds, cash and cash equivalents, and properties.

The assessment of control over OEICs, ACSs, SICAVs and unit trusts requires judgement. In assessing control, the Group determines whether it is acting as principal or agent. This includes an assessment of the scope of its decision-making authority, including rights held by third parties, which may provide these parties substantive removal rights that may affect the Group's ability to direct the relevant activities and indicate that the Group does not have power.

In addition, the assessment considers the aggregate economic interest of the Group, which includes both direct holding and expected management fee if the fund manager is a Group company, however, management fee in most cases forms an immaterial part of the aggregate economic interest of the Group.

Holdings in such investments can fluctuate on a daily basis according to the participation of the Group and other investors in them. As a result, in determining control, the Group looks at the trend of ownership over a longer period (rather than at a point in time) to mitigate the impact of daily fluctuations which do not reflect the wider facts and circumstances of the Group's involvement.

Consolidation assessment is performed in line with the following principles:

- where the Group manages the assets of the entity, and the aggregate of the Group's ownership holding in the entity exceeds 50%, the Group is judged to have control over the entity;
- where the Group manages the assets of the entity, and the aggregate of the Group's ownership holding in the entity is between 20% and 50%, the facts and circumstances of the Group's involvement in the entity are considered, including the rights to any fees earned by the asset manager from the entity, in forming a judgement as to whether the Group has control over the entity;
- where the Group manages the assets of the entity, and the aggregate of the Group's ownership holding in the entity is less than 20%, the Group is judged to not have control over the entity; and
- where the assets of the entity are managed externally, an assessment is made of whether the Group has existing rights that give it the ability to direct the current activities of the entity and therefore control the entity. In assessing the Group's ability to direct an entity, the Group considers its ability relative to other investors. The Group has a limited number of OEICs and unit trusts where it considers it has such ability.

Where the Group is deemed to control these entities, they are treated as subsidiaries and are consolidated, with the interests of investors other than entities within the Group being classified as liabilities, presented as third party interest in consolidated funds.

Where the Group does not control these entities (as it is deemed to be acting as an agent) and they do not meet the definition of associates, they are carried at FVTPL within equity securities and pooled investment funds in the consolidated statement of financial position.

Where the Group initially sets up OEICs, ACSs, SICAVs and unit trusts as part of its operations through its investment management business, and invests the initial seed capital which results in a significant holding resulting in control of the fund, the Group assesses whether there is a formal plan in place to divest its holding to below the threshold triggering control within 12 months. In this situation, the vehicle is not consolidated, but classified as held for sale and carried at FVTPL.

Limited partnerships

The Group invests in a number of limited partnerships, either directly or through unit trusts, through a mix of capital and loans. These limited partnerships are managed by general partners, in which the Group holds equity.

Such interests in general partners and limited partnerships provide the Group with voting and similar rights to participate in the governance framework of the relevant activities which limited partnerships are engaged in. Accounting for the limited partnerships (including underlying investees) as subsidiaries, joint ventures, associates or other financial investments depends on the terms of each partnership agreement and the level of shareholdings in the general partners.

1 Basis of preparation and significant accounting policies continued

Other structured entities

The Group holds investments in mortgage-backed securities, collateralised debt obligations and similar asset-backed securities.

The Group consolidates the vehicles that hold the investments where the Group is deemed to control the vehicles. When assessing control over the vehicles, the factors considered include the purpose and design of the vehicle, the Group's exposure to the variability of returns and the scope of the Group's ability to direct the relevant activities of the vehicle, including any kick-out or removal rights that are held by third parties. The outcome of the control assessment is dependent on the terms and conditions of the respective individual arrangements, taking into account aggregate economic interest where relevant.

(iv) Third party interests

Interests of parties other than the Group in entities which the Group controls are assessed to determine whether they should be classified as financial liabilities or as non-controlling interests in equity on the statement of financial position. Puttable third party interests such as units held by external investors in unit trusts are classified as financial liabilities. Third party interests in private equity vehicles set up with finite lives are also classified as financial liabilities.

1.5.2 Insurance and investment contracts

(i) Classification

Contracts written by the Group's insurance operations are classified as either insurance contracts or investment contracts. Contracts that transfer significant insurance risk to the Group are classified as insurance contracts. Judgement is applied in assessing whether the features of a contract gives rise to the transfer of significant insurance risk. This assessment is based on a readily identifiable scenario which is used to determine if there would be a significant difference in the contract's cash outflows if the insured event occurs. This judgement is made at inception and is not revisited.

Contracts that transfer financial risk to the Group but not significant insurance risk are classified as investment contracts.

Some contracts, both insurance and investment, contain discretionary participation features (DPF) representing the contractual right to receive additional benefits as a supplement to guaranteed benefits that: (i) are likely to be a significant portion of the total contract benefits; (ii) have amount or timing contractually at the discretion of the insurer; and (iii) are contractually based on asset or fund performance. These contracts are classified as insurance or investment contracts with DPF.

The measurement of contracts depends on their classification. Those classified as either insurance contracts or investment contracts with DPF are accounted for as insurance contracts under IFRS 4. Investment contracts without DPF are accounted for as financial instruments under IAS 39. The classification of the Group's insurance operations' main contract types are shown below:

Type of contract	Classification
With-profits	Insurance contract/Investment contract with DPF
Unit-linked with significant insurance risk	Insurance contract
Unit-linked without significant insurance risk	Investment contract
Annuities	Insurance contract

(ii) Measurement: Insurance contracts and investment contracts with discretionary participation features

Insurance contracts and investment contracts with DPF are accounted for under IFRS 4 Insurance Contracts, which permits the continued usage of previously applied Generally Accepted Accounting Practices (GAAP) that have been grandfathered by the Group. In particular, the Group uses a modified statutory basis, which is based on grandfathered regulatory requirements prior to the adoption of Solvency II, adjusted in accordance with the Statement of Recommended Practice issued by the Association of British Insurers (ABI SORP). The Group's With-Profits Fund is measured on a realistic basis in accordance with FRS 27 Life Assurance. The measurement of the liabilities arising from the main types of contracts in scope of IFRS 4 is described further below.

Valuation of the With-Profits Fund's liabilities

The policyholder liabilities for the Group's With-Profits Fund are measured under FRS 27 Life Assurance, which requires the use of the realistic value of liabilities. In aggregate, this 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.

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); and

(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.

1 Basis of preparation and significant accounting policies continued

The FPRL must include a market-consistent valuation of costs of guarantees, options and smoothing, less any related charges, and this amount is determined using a stochastic approach.

The shareholders' share of future costs of bonuses is included within the liabilities for unallocated surplus. The shareholders' share of profit is recognised in line with the distribution of bonuses to policyholders.

Unallocated surplus of the With-Profits Fund

The unallocated surplus of the With-Profits Fund represents the excess of assets over policyholder liabilities that have yet to be appropriated between policyholders and shareholders. 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 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.

Valuation of unit-linked contracts

For unit-linked contracts classified as insurance contracts, the attaching liability reflects the unit value obligation and an additional provision in respect of expenses and mortality risk. The latter component is determined by applying mortality assumptions on a basis that is appropriate for the policyholder profile and discounted at an appropriate valuation interest rate.

Valuation of 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 primary assumptions required are in respect of policyholder mortality, credit assumptions within the valuation interest rate, and future expense levels.

Liability adequacy test

The Group performs adequacy testing on its liabilities in respect of insurance contracts and investment contracts with DPF to ensure that the carrying amounts (net of related deferred acquisition costs) are sufficient to cover current estimates of future cash flows. Any deficiency is immediately charged to the income statement.

(iii) Investment contracts without discretionary participation features

Investment contracts without DPF, such as unit-linked savings and similar contracts, are accounted for as financial instruments. This treatment reflects the deposit nature of the arrangement, with premiums and claims reflected as deposits and withdrawals and recognised directly on the statement of financial position as movements in the financial liability. These investment contracts are classified as financial instruments and designated as FVTPL because the resulting liabilities are managed, and their performance is evaluated on a fair value basis.

The Group incurs various incremental, directly attributable acquisition costs relating to the investment management element of these contracts which are capitalised and amortised in line with the related revenue. If the contracts involve upfront charges, this income is also deferred and amortised through the income statement as the service is provided in accordance with IFRS 15.

1.5.3 Business acquisitions

Business acquisitions are accounted for by applying the acquisition method of accounting, where the identifiable assets and liabilities of the acquired business are recorded at fair value on the date of acquisition. The excess of the fair value of acquisition consideration over the recorded value of the assets and liabilities of the acquired entity is recorded on the statement of financial position as goodwill. Expenses related to acquiring new business are charged to the income statement in the year in which they are incurred. Income and expenses of acquired entities are included in the income statement from the date of acquisition.

Acquisitions of entities under common control are accounted for under merger accounting principles. Under merger accounting, the results and statement of financial position for entities acquired are presented as if they had always been combined. Assets and liabilities of the entities acquired are recorded at their carrying values and a fair value measurement is not undertaken. No new goodwill is recognised and the differences between the cost of investment, which is its fair value, and the carrying value of assets and liabilities acquired is recorded within equity.

1.5.4 Financial assets and liabilities

(i) Classification and measurement

The classification of financial assets and liabilities is determined at initial recognition. The Group classifies derivative financial assets and financial liabilities as held for trading.

Financial assets which are managed and whose performance is evaluated on a fair value basis are designated at fair value through profit or loss (FVTPL). The vast majority of the Group's financial assets fall into this category as the assets are held to back policyholder liabilities. Managing assets on a fair value basis maximises returns to policyholders and avoids accounting mismatches in the income statement.

Financial assets classified as held for trading or at FVTPL, and financial liabilities classified as held for trading, are measured at fair value with all changes thereon being recognised in investment return in the income statement.

1 Basis of preparation and significant accounting policies continued

The Group's financial assets which are not derivatives or designated at FVTPL are classified as loans or receivables. These instruments comprise non-quoted investments that have fixed or determinable payments and include loans collateralised by mortgages, deposits, loans to policyholders and other unsecured loans and receivables. These investments are initially recognised at fair value plus transaction costs. Subsequently, these instruments are carried at amortised cost using the effective interest method and are subject to impairment reviews. Where there is objective evidence that a loss event has occurred, the Group measures the amount of the impairment loss by comparing the amortised cost with the present value of its estimated future cashflows discounted at the original effective interest rate.

The Group uses the trade date method to account for regular purchases and sales of financial assets. Transaction costs are expensed as incurred.

Financial liabilities other than derivatives are classified according to the substance of the contractual arrangements. The Group designates financial liabilities at FVTPL if these instruments are managed and their performance evaluated on a fair value basis. Investment contract liabilities without discretionary participation features are designated at FVTPL, with changes in fair value recognised within benefits and claims in the consolidated income statement. The fair value liability is equal to the total value of units allocated to the policyholders, based on the bid price of the underlying assets.

Third party interest in consolidated funds which are classified as financial liabilities are designated as FVTPL to match the treatment of the underlying assets in the funds. Changes in fair value are recognised in movements in third party interest in consolidated funds in the consolidated income statement.

Financial liabilities which are not designated at FVTPL are measured at amortised cost using the effective interest method.

(ii) Determination of fair value

The Group uses current bid prices to value its investments with quoted prices. Actively traded investments without quoted prices are valued using prices provided by third parties. Financial assets measured at fair value are classified into a three-level hierarchy as described in Note 32.

If the market for a financial investment of the Group is not active, the fair value is determined using valuation techniques. The Group establishes fair value for these financial investments by using quotations from independent third parties, such as brokers or pricing services, or by using internally developed pricing models. Priority is given to publicly available prices from independent sources when available, but overall the source of pricing and/or the valuation technique is chosen with the objective of arriving at a fair value measurement, which reflects the price at which an orderly transaction would take place between market participants on the measurement date.

The valuation techniques include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option-adjusted spread models and, if applicable, enterprise valuation and may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these financial investments. Details of the financial investments classified as "level 3" to which valuation techniques are applied, and the sensitivity of profit before tax to a change in these items' valuation, are presented in Note 32.

1.5.5 Earned premiums, policy fees and claims paid

Premiums and annuity considerations for conventional with-profits policies and other protection-type life insurance and annuity policies are accounted for when due. For unit-linked business and unitised with-profits policies, premiums are accounted for when the liabilities arising from the premiums are recognised. These amounts exclude premium taxes and similar duties where the Group collects and settles taxes borne by the customer.

Policy fees charged on linked and unitised with-profits policies for mortality, asset management and policy administration are recognised as revenue when related services are provided.

Claims paid include maturities, annuities, surrenders and deaths. Maturity claims are recorded as charges on the policy maturity date. Annuity claims are recorded when each annuity instalment becomes due for payment. Surrenders are charged to the income statement when paid and death claims are recorded when notified.

1.5.6 Reinsurance

The business seeks to reduce loss exposure by reinsuring certain levels of risk in various areas of exposure with other insurance companies or reinsurers. Where the reinsurance contracts transfer significant insurance risk to the reinsurer, the asset arising from the contract is classified as reinsurance assets. Reinsurance also includes the impact of longevity swaps.

The measurement of reinsurance assets is consistent with the measurement of the underlying direct insurance contracts. Reinsurance premiums paid and reinsurance recoveries on claims paid are recognised when the corresponding insurance premium is received from the policyholder and when the reinsured claims are incurred, respectively. These items are disclosed separately on the face of the consolidated income statement. Any gains or losses arising on the purchase of reinsurance contracts are immediately recognised in the consolidated income statement.

Where the reinsurance contract does not transfer significant insurance risk to the reinsurer, the contract is classified as a financial instrument and is measured at FVTPL.

1 Basis of preparation and significant accounting policies continued

1.5.7 Fee income

Revenue arising from contracts with customers consists of investment management and performance fee income from the Group's asset management business, investment contracts without DPF, platform fee and other fees and commissions.

Management fee income is based on investment assets under management and is only recognised when the Group satisfies its performance obligation to provide the asset management services. It is recognised in the year in which the services are rendered and is recognised net of rebates. Since the asset management service the Group provides is a continuous service, it satisfies its performance obligation over time. Therefore, the Group meets the criteria for its revenue to be recognised over time as the client benefits from the asset management services received from the Group.

Performance fee income is based on the achievement of prescribed performance hurdles. It is only recognised when the performance obligations are satisfied or upon the crystallisation event occurring and when it is highly probable that a significant reversal will not occur.

Fees from investment contracts without DPF are recognised over time as the services are provided. Other fees and commissions such as from the provision of financial advice to customers are recognised when performance obligations are satisfied or upon the crystallisation of an event. The price is determined based on the agreed initial or ongoing adviser charge.

Platform fees are recognised as the related services are provided to the customer.

No significant judgements are applied on the timing or transaction price or the determination of the costs incurred to obtain or fulfil a contract.

1.5.8 Investment return

Investment return included in the consolidated income statement comprises interest income, rental income, dividends, foreign exchange gains and losses, realised and unrealised gains and losses on investments designated as FVTPL, and realised gains and losses (including impairment) on items held at amortised cost. Interest income is recognised as it accrues on an effective interest basis for instruments held at amortised cost. Dividends on equity securities are recognised on the ex-dividend date and rental income is recognised on an accruals basis.

1.5.9 Deferred acquisition costs

The Group incurs various incremental, directly attributable acquisition costs in obtaining new contracts. For investment contracts without DPF, these acquisition costs are capitalised and amortised in line with the related revenue as required by IFRS 15. For certain insurance contracts, such acquisition costs are also capitalised and amortised in line with the emergence of projected margins. These costs (deferred acquisition costs) are recognised as an asset in the statement of financial position.

The recoverability of any deferred acquisition costs is reviewed at each reporting date, and to the extent that these are no longer deemed recoverable from future revenue or projected margins, then the carrying value is written down to the recoverable amount and the related impairment charge recorded in the consolidated income statement.

For insurance contracts written within the UK regulated With-Profits Fund, in accordance with FRS 27 there is no deferral of acquisition costs and these costs are expensed as incurred. Similarly, for insurance contracts where all of the acquisition costs are recovered upfront, such as annuities, no acquisition costs are deferred.

1.5.10 Derivatives and hedge accounting

The primary areas of the Group's operations where derivative instruments are held are in the With-Profits Fund and annuity business. Management designates derivatives on inception, and those that are not designated as hedging instruments are classified as ''held for trading" and are measured at FVTPL. Movements in fair value are recorded within investment return in the consolidated income statement.

The Group does not regularly seek to apply fair value or cash flow hedging treatment under IAS 39 and has had no fair value or cash flow hedges for the years ended 31 December 2021 and 31 December 2020.

1.5.11 Derecognition of financial assets and liabilities

The Group's policy is to derecognise financial assets when it is deemed that substantially all the risks and rewards of ownership have been transferred. Gains and losses on disposal are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in the consolidated income statement.

The Group derecognises financial liabilities only when the obligation specified in the contract is discharged, cancelled or has expired.

1.5.12 Securities lending and reverse repurchase agreements

The Group is party to various securities-lending agreements and repurchase agreements under which securities are transferred to third parties on a short-term basis. The transferred securities are not derecognised; rather, they continue to be recognised within the appropriate investment classification. The Group's policy is that collateral in excess of 100% of the fair value of securities loaned is required from all securities' borrowers and typically consists of cash, debt securities, equity securities or letters of credit.

1 Basis of preparation and significant accounting policies continued

In cases where the Group takes possession of the collateral under its securities lending programme, including cash collateral which is not legally separated from the Group, the collateral and corresponding obligation to return such collateral is recognised as a financial liability on the consolidated statement of financial position.

The Group is also party to various reverse repurchase agreements under which securities are purchased from third parties with an obligation to resell the securities. The securities are not recognised as investments on the statement of financial position. The right to receive the return of any cash paid as purchase consideration plus interest is recognised as a financial asset on the statement of financial position.

1.5.13 Subordinated liabilities and other borrowings

Subordinated liabilities include loan notes issued by the Group which are classified as financial liabilities as they have a fixed repayment date and do not represent a residual interest in the net assets of the Company on liquidation. The notes rank junior to all other liabilities of the Group in the event of liquidation, but above share capital.

Borrowings include operational borrowings attributable to shareholder-financed operations and other borrowings attributable to the With-Profits Fund.

Subordinated liabilities and other borrowings are initially recognised at fair value, net of transaction costs. Borrowings, excluding those backing buy-to-let mortgages, which are managed on a fair value basis and designated at FVTPL, are subsequently accounted for on an amortised cost basis using the effective interest method. Under the effective interest method, the difference between the redemption value of the borrowing and the initial proceeds (net of related issue costs) is amortised through the income statement to the date of maturity, or for hybrid debt, over the expected life of the instrument.

Borrowings backing buy-to-let mortgages are designated at FVTPL in line with the underlying loan assets.

1.5.14 Investment property

Investments in leasehold and freehold properties not for occupation by the Group, including properties under development for future use as investment property, are carried at fair value, with changes in fair value included in the income statement. Properties are valued annually either by the Group's qualified surveyors or by taking into consideration the advice of professional external valuers using the Royal Institution of Chartered Surveyors' valuation standards. Each property is externally valued at least once every three years.

1.5.15 Defined benefit pension schemes

For the Group's defined benefit schemes, if the present value of the defined benefit obligation for the relevant scheme exceeds the fair value of the scheme assets, then a liability is recorded in the Group's statement of financial position in respect of that scheme. By contrast, if the fair value of the assets of the relevant scheme exceeds the present value of the defined benefit obligation then the surplus in respect of that scheme will only be recognised if the nature of the arrangements under the trust deed, and funding arrangements between the Trustee and the employing entity, support the availability of refunds or recoverability through agreed reductions in future contributions. In addition, if there is a constructive obligation for the employing entity to pay deficit funding in respect of schemes where there is no unconditional right to a refund to any surplus, this is also recognised such that the financial position recorded for the scheme reflects the higher of any underlying IAS 19 Employee Benefits deficit and the obligation for deficit funding.

The Group utilises the projected unit credit method to calculate the defined benefit obligation. This method sees each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Estimated future cash flows are then discounted at a high-quality corporate bond rate, adjusted to allow for the difference in duration between the bond index and the pension liabilities where appropriate, to determine its present value. These calculations are performed by independent actuaries.

The plan assets of the Group's pension schemes include several insurance contracts that have been issued by the Group. These assets are excluded from plan assets in determining the pension surplus or deficit recognised on the consolidated statement of financial position. The aggregate of the actuarially determined service costs of the currently employed personnel, and the net interest on the net defined benefit obligation at the start of the year, is charged to the consolidated income statement. Actuarial and other gains and losses as a result of changes in assumptions or experience variances are recognised as other comprehensive income.

Contributions to the Group's defined contribution pension schemes are expensed when due.

1.5.16 Tax

The Group applies IAS 12 Income Taxes in accounting for taxes on income. Income tax comprises current tax and deferred tax. Income Tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the tax is recognised in the same statement as the related item appears.

Current tax expense is charged or credited based upon amounts estimated to be payable or recoverable as a result of taxable amounts for the current year and adjustments made in relation to prior years. Income tax recoverable on tax-allowable losses is recognised as a current tax asset only to the extent that it is regarded as recoverable by offsetting against taxable profits arising in the current or prior periods. Current tax is measured using tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

1 Basis of preparation and significant accounting policies continued

Deferred taxes are provided under the liability method for all relevant temporary differences. IAS 12 Income Taxes does not require all temporary differences to be provided for, in particular, the Group does not provide for deferred tax on undistributed earnings of subsidiaries where the Group is able to control the timing of the distribution and the temporary difference created is not expected to reverse in the foreseeable future. Deferred tax is also not recognised on temporary differences that arise from initial recognition of an asset or a liability in a transaction (other than a business combination) that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised.

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 and liabilities are only offset when there is both a legal right to set off and an intention to settle on a net basis.

The total tax charge includes tax expense attributable to both policyholders and shareholders. The tax expense attributable to policyholders comprises the tax on the income of the consolidated with-profits and unit-linked funds. In certain jurisdictions, such as the UK, life insurance companies are taxed on both their shareholders' profits and their policyholders' insurance and investment returns on certain insurance and investment products. Although both types of tax are included in the total tax charge in the Group's consolidated income statement, they are presented separately in the consolidated income statement to provide the most relevant information about tax that the Group pays on its profits.

The Group is subject to tax in numerous jurisdictions and the calculation of the total tax charge inherently involves a degree of estimation and judgement. The positions taken in tax returns, where applicable tax regulation is subject to interpretation, are recognised in full in the determination of the tax charge in the financial statements if the Group considers that it is probable that the taxation authority will accept those positions. Otherwise, the Group considers an uncertain tax position to exist and a provision is recognised to reflect that a taxation authority, upon review of the positions, could alter the tax returns. From recognition, the provision is measured based on management's judgement and estimate of the likely amount of the liability, or recovery, by providing for the single best estimate of the most likely outcome or the weighted average expected value where there are multiple possible outcomes, taking into account external advice where appropriate. Each uncertain tax treatment is considered separately or together as a group, depending on management's judgement as to which approach better predicts the resolution of the uncertainty. It is assumed that tax authorities will examine the uncertain tax treatments and that they have full knowledge of all related information.

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.

1.5.17 Goodwill

Goodwill arises when the Group acquires a business and the fair value consideration paid exceeds the fair value of the net assets acquired. Goodwill arising on acquisitions of subsidiaries and businesses is capitalised and carried on the consolidated statement of financial position at initial value less any accumulated impairment losses. Goodwill impairment testing is conducted annually and when there is an indication of impairment. For the purposes of impairment testing, goodwill is allocated to a group of cash-generating units. Goodwill impairment charges are recognised immediately in the income statement.

1.5.18 Intangible assets

Intangible assets acquired through business combinations are measured at fair value on acquisition. Separately acquired intangible assets such as licences and software, are recognised at the price paid to acquire them. Intangibles arising from development costs are capitalised when it has been established that the project is technically and financially feasible and the Group has both the intention and ability to use the completed asset.

Intangible assets are subsequently carried at cost less amortisation and any accumulated impairment losses.

Intangibles are amortised on a basis to reflect the pattern in which the future economic benefits are expected to be consumed by reference to new business production levels unless the pattern cannot be determined reliably, in which case a straight-line method is applied. Impairment testing is conducted when there is an indication of impairment. If an impairment has occurred, an impairment charge is recognised for the difference between the carrying value and recoverable amount of the asset. The recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is calculated as the present value of future expected cash flows from the asset, cash-generating unit or group of cash-generating units to which it is allocated.

Amortisation and impairment of intangible assets is charged to the income statement.

1.5.19 Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand, deposits held at call with banks, debt securities and money market funds with less than 90 days' maturity from the date of acquisition.

1 Basis of preparation and significant accounting policies continued

1.5.20 Dividends

Dividends are recognised when the obligation becomes certain, i.e. when the dividend is no longer at the discretion of the Company. In the case of interim dividends, this occurs when the dividends are paid. For final dividends, this occurs when they are recommended by the Board and approved by shareholders.

1.5.21 Share capital and share premium

An equity instrument is any contract that evidences a residual interest in the assets of the Group, after deducting all of its liabilities. Shares are classified as equity when their terms do not create an obligation to transfer assets. The nominal value of shares issued is recorded in share capital.

Where the consideration received from the issue or sale of existing shares exceeds the nominal value recorded in share capital, the difference is recorded in share premium. Share premium is recorded net of share issue costs.

1.5.22 Treasury shares

Where any of the Group entities purchase the Company's share capital, the consideration paid, including any attributable transaction costs, is shown as a deduction from total shareholders' equity. Any gains and losses arising on treasury shares are included within equity.

1.5.23 Merger reserve

The merger reserve arises from the application of merger accounting principles to acquisitions of entities under common control. It represents the difference between the aggregate capital reserves and value of the entities acquired, which is recognised directly in equity. On disposal of the relevant entity, the related merger reserve is released directly to retained earnings.

1.5.24 Share-based payments

All share-based payments made to employees for services rendered are measured based on the fair value of the equity instrument granted. The fair value takes into account the impact of market-based vesting conditions and non-vesting conditions, but excludes any impact of non-market-based vesting conditions. The related share-based payment expense is recognised over the vesting period. The fair value may be determined using an option pricing model such as Black-Scholes simulation where appropriate, taking into account the terms and conditions of the award.

For equity-settled share-based payments, the fair value of service rendered is based on the fair value of the equity instrument at grant date, which is not remeasured subsequently. The share-based payment expense is recognised over the vesting period and is based on the number of equity instruments expected to vest, with the corresponding entry to equity.

For cash-settled share-based payments, the fair value of service rendered is based on the fair value of the liability related to the equity instrument granted. The fair value equity instrument granted is remeasured at each reporting date with any changes recognised in the share-based payment expense for the period.

A cancellation of an award without the grant of a replacement equity instrument is accounted for as an acceleration of vesting. Accordingly, any share-based expense that would have been recognised over the remaining vesting period is recognised immediately.

Where replacement equity instruments are granted to employees in place of the cancelled equity instruments, the replacement award is treated as a modification of the original award. At the point of replacement, the awards are remeasured to the fair value at the date of replacement, which forms the basis of recognising the expense over the remaining vesting period.

On vesting or exercise, the difference between the expense charged to the income statement and the actual cost to the Group is transferred to retained earnings.

1.5.25 Discontinued operations

The Group classifies an entity (or a component of an entity) within the Group as a discontinued operation if it has either been disposed of, or is classified as held for sale, and

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

The analysis of the comprehensive income and cash flows relating to discontinued operations is disclosed separately in the consolidated financial statements.

1.5.26 Earnings per share (EPS)

Basic EPS is calculated by dividing the profit or loss for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding, excluding treasury shares.

Diluted EPS is calculated by dividing the profit or loss for the year attributable to ordinary shareholders by the weighted average number of ordinary shares, excluding treasury shares, adjusted to take into account the effect of any dilutive potential ordinary shares. The Group's only class of potentially dilutive ordinary shares are share options and awards granted to employees. Potential ordinary shares are treated as dilutive when their conversion to ordinary shares results in a decrease in EPS.

1 Basis of preparation and significant accounting policies continued

1.5.27 Foreign exchange

The Group's consolidated financial statements are presented in million pounds sterling, the Group's presentation currency. Accordingly, the results and financial position of foreign subsidiaries are translated into the presentation currency of the Group from their functional currencies. All assets and liabilities of foreign subsidiaries are converted at year end exchange rates while all income and expenses are converted at average exchange rates where this is a reasonable approximation of the rates prevailing on transaction dates.

Foreign currency monetary assets and liabilities are translated at the spot exchange rate for the functional currency at the reporting date. Changes resulting from exchange rates are recognised in the income statement.

Foreign currency transactions are translated into functional currencies at the spot rate prevailing on the date of transactions.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Exchange differences arising on the translation of foreign subsidiaries are recognised in other comprehensive income and taken to other reserves within equity. On disposal of the foreign subsidiary, the related exchange differences are transferred out of this reserve and are recognised in the income statement as part of the gain or loss on disposal.

The income statements and cash flows, and statements of financial position of Group entities that have a different functional currency from the Group's presentation currency, have been translated using the following principal exchange rates.

	2021		2020	
	Income statement and cash flows (average rate)	**Statement of financial position (closing rate)**	Income statement and cash flows (average rate)	Statement of financial position (closing rate)
Euro (EUR)	**1.16**	**1.19**	1.13	1.12
Indian Rupee (INR)	**101.70**	**100.68**	95.11	99.88
Polish Złoty (PLN)	**5.31**	**5.46**	5.00	5.09
South African Rand (ZAR)	**20.34**	**21.62**	21.10	20.08
US Dollar (USD)	**1.38**	**1.35**	1.32	1.37

1.5.28 Leases

The Group leases office property to conduct its business. At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. In simple terms this applies if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At inception, the Group allocates the consideration in a contract to each lease component. However, for the leases of land and buildings, in which the Group acts as lessee, the Group has elected to account for the lease and non-lease components as a single lease component.

Where the Group acts as a lessee, it recognises a "right of use" asset and a corresponding lease liability, representing the obligation to make lease payments at the lease commencement date. The Group applies the cost model to the right of use assets, except for those that meet the definition of an investment property, to which the fair value model is applied.

The asset is initially measured at cost which comprises the amount of the lease liability, and lease payments made at or before the commencement date, any initial direct costs incurred and an estimate of the costs related to the dilapidation of the asset that would be incurred, less any lease incentives received. Subsequently, the asset is depreciated using the straight-line method from the commencement date to the earlier of (i) the end of the right of use asset's useful life and (ii) the end of the lease term.

The lease liability is initially measured at the present value of lease payments that are not yet paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's own incremental borrowing rate. Subsequently, the lease liability is measured at amortised cost, using the effective interest method. From time to time, the lease liability may be re-measured where there is a change in future lease payments for example, where the Group reassesses whether it will exercise a purchase, extension or termination option. Where this happens, a corresponding adjustment is made to the carrying amount of the right of use asset or an amount is recognised in the consolidated income statement if the carrying amount of the right of use asset has been reduced to zero.

The Group presents the right of use assets that do not meet the definition of investment property in "Property, plant and equipment" on the consolidated statement of financial position. The corresponding lease liabilities are presented in "Lease liabilities".

Where the Group acts as lessor, it classifies and accounts for its leases as operating or finance leases. Where the Group acts as an intermediate lessor, as it does with some of its property leases, it accounts for its interests in the head lease and the sub-lease separately. The Group assesses the lease classification of a sub-lease with reference to the right of use asset arising from the head lease, not with reference to the underlying asset. The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of "Investment return".

1 Basis of preparation and significant accounting policies continued

1.5.29 Property, plant and equipment (PPE)

PPE includes Group occupied properties and other tangible assets, such as computer equipment, motor vehicles, leasehold improvements and fixtures and fittings. PPE including owner-occupied property is measured at cost, which represents the original purchase price less any expenses incurred in bringing it to its working conditions, and subsequently measured using the cost model.

Depreciation is charged to the consolidated income statement on a straight-line basis over the assets estimated useful lives* as follows:

Group occupied property	20–50 years
Right of use asset	2–50 years
Other tangible assets	2–40 years

* Useful lives stated are inclusive of PPE held by consolidated infrastructure private equity vehicles which typically have longer useful lives than other assets of the Group.

Management determines useful lives and residual values for assets when they are acquired. The Group assesses the useful life, residual value and depreciation method for PPE on an annual basis and any adjustments are made where required.

An impairment review of PPE is carried out whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Management assesses impairment at the lowest level for which there are separately identifiable cash flows. Where the carrying amount of an asset is greater than its estimated recoverable amount, which is the higher of the assets fair value less costs of disposal and value in use, it is written down immediately to its recoverable amount and an impairment loss is recognised in the consolidated income statement.

1.5.30 Assets and liabilities held for sale

The Group classifies assets and liabilities as held for sale when the carrying amount is expected to be recovered through a sale transaction, usually within one year, and management is committed to the sale.

Assets and liabilities held for sale are shown separately on the consolidated statement of financial position and are measured at the lower of their carrying amount and their fair value less costs to sell. No depreciation or amortisation is charged on an asset which is classified as held for sale.

When the Group is committed to a sale of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Income and expenses of subsidiaries sold during the year are included in the income statement up to the date of disposal. The gain or loss on disposal is calculated as the difference between sale proceeds net of selling costs, less the net assets of the entity at the date of disposal, adjusted for foreign exchange movements attaching to the sold entity that are required to be recycled to the income statement under IAS 21: The Effects of Changes in Foreign Exchange Rates.

1.5.31 Provisions and contingent assets and liabilities

Provisions are recognised in the statement of financial position when the Group has a present legal or constructive obligation resulting from a past event, it is more probable than not that a loss will be made in settling the obligation and the amounts can be estimated reliably.

Provisions are measured based on management's best estimate of the expenditure required to settle the obligation at the reporting date. Provisions are discounted and represent the present value of the expected expenditure where the effect of the time value of money is material.

Contingent liabilities are possible obligations of the Group where the timing and amount are subject to significant uncertainty. Contingent liabilities are not recognised in the consolidated statement of financial position, unless they are assumed by the Group as part of a business combination. Contingent liabilities are however disclosed, unless they are considered to be remote. If a contingent liability becomes probable and the amount can be reliably measured, it is no longer treated as contingent and recognised as a liability.

Contingent assets which are possible benefits to the Group are only disclosed if it is probable that the Group will receive the benefit. Mirroring the treatment of contingent liabilities, if such a benefit becomes virtually certain, it is no longer considered contingent and is recognised on the consolidated statement of financial position as an asset.

2 Group structure and products

2.1 Group composition

The following diagram is an extract of the Group structure at 31 December 2021 and gives an overview of the composition of the Group. M&G plc is the holding company of the Group.

- M&G plc
  - M&G Group Regulated Entity Holding Company Limited
    - M&G Group Limited
      - M&G FA Limited
        - M&G Securities Limited
        - M&G Alternative Investment Management Limited
        - M&G Financial Services Limited
        - M&G Real Estate Limited
        - M&G Investment Management Limited
        - M&G Investments Southern Africa (Pty) Ltd
        - Other Subsidiaries (including regulated subsidiaries)
    - The Prudential Assurance Company Limited
      - Prudential International Assurance Public Limited Company Ireland
      - Prudential Lifetime Mortgages Limited
      - Prudential Pensions Limited
      - Other Subsidiaries
    - Wrap IFA Services Limited
      - Investment Funds Direct Group Limited
        - Investment Funds Direct Limited
          - Other Subsidiaries
        - Investment Funds Direct Holdings Limited
    - Other Subsidiaries
  - Prudential Property Services Limited
  - M&G Corporate Holdings Limited
    - Prudential Portfolio Management Group Limited
    - M&G Corporate Services Limited
    - Other Subsidiaries
  - Prudential Financial Services Limited
    - M&G Wealth Advice Limited
    - Prudential Distribution Limited
    - Prudential UK Services Limited
    - Other Subsidiaries
  - Prudential Capital Holding Company Limited
    - Prudential Capital (Singapore) Pte. Limited
  - Prudential Capital Public Limited Company

Key: Regulated subsidiaries

A complete list of the Group's related undertakings comprising subsidiaries, joint ventures, associates and other significant holdings is contained within Note 40.

2 Group structure and products continued

2.2 Corporate transactions

2.2.1 Sale of annuity portfolio to Rothesay Life PLC

On 14 March 2018, Prudential plc announced the reinsurance of a portion of PAC's shareholder-backed annuity portfolio to Rothesay Life PLC by way of a collateralised reinsurance arrangement to be followed by an insurance business transfer scheme (the "Scheme") under Part VII of Financial Services and Markets Act 2000. The terms of the reinsurance arrangement transferred substantially all of the economic risk and capital requirements associated with the annuity portfolio to Rothesay Life PLC, subject to a residual counterparty credit risk attaching to reinsurance receivables.

On 17 May 2019, the independent expert who was appointed to report to the High Court concluded that the transfer would have no material adverse effect on the security of benefits or the reasonable benefit expectations of PAC's policyholders. However, on 16 August 2019, the High Court declined to sanction the Scheme. PAC and Rothesay Life PLC successfully appealed that decision in the Court of Appeal. A further sanction hearing was held in the High Court between 8 and 10 November 2021. On 24 November 2021 the Scheme was sanctioned by the High Court and became effective on 15 December 2021. On this date £9,558m of Insurance contract liabilities were transferred via Part VII and the reinsurance agreement was terminated. During the year, a loss of £16m was recognised in relation to additional premium payable under the terms of the collateralised reinsurance arrangement prior to the Part VII transfer.

	£m
Assets	
Reinsurance assets	**9,558**
Cash and cash equivalents	**64**
Total assets	**9,622**
Liabilities	
Insurance contract liabilities	**9,558**
Accruals, deferred income and other liabilities	**64**
Total liabilities	**9,622**

2.2.2 PPMSA acquisition

On 4 July 2021, M&G FA Limited, a wholly-owned subsidiary of the Group acquired a further 0.13% of the share capital of Prudential Portfolio Managers (South Africa) (Pty) Ltd (PPMSA) – now known as MandG Investments Southern Africa (Pty) Ltd, for a cash consideration of £0.2m. The transaction increased M&G FA Limited's direct holding in PPMSA from 49.99% to 50.12%, requiring PPMSA's results to be consolidated in the Group's financial statements from 4 July 2021.

Prudential Staff Investment Company (RF) Proprietary Limited (PSI), a company established to manage and administer a staff share scheme for employees of PPMSA, holds 28.01% of the shares of PPMSA. This arrangement meets the definition of other long-term employment benefit scheme as dividends paid out to PSI are all paid on to the employees of PPMSA for services rendered to PPMSA. As a result, the dividends paid out on the 28.01% are classified as employee costs in the profit and loss account. Consequently, amounts attributable to non-controlling interests exclude the 28.01% holding.

The Group previously accounted for the investment as an associate using the equity method. As the Group now has a controlling interest, the acquisition has been accounted for using the acquisition accounting method with the Group electing to use the fair value option to value the non-controlling interests' share at the date of acquisition.

At the date of acquisition, the carrying value of the investment in PPMSA was £34m and the fair value of the Group's existing stake was £85m, resulting in a gain of £51m being recognised and reported in other income in the year to 31 December 2021.

The acquisition of PPMSA builds on the Group's international capability, with Cape Town becoming our fifth global investment centre and provides the Group with further sales opportunities and synergies from the business being integrated within the Group.

2 Group structure and products continued

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

	£m
Total cash consideration	–
Fair value of PPMSA[i]	123
Total consideration	**123**
Fair value of net assets acquired:	
Property, plant and equipment	4
Equity securities and pooled investment funds	3
Insurance contract assets	598
Accrued investment income and other debtors	9
Cash and cash equivalents	13
Total assets	**627**
Investment contract liabilities without discretionary participation features	(598)
Accruals, deferred income and other liabilities	(9)
Total liabilities	**(607)**
Customer-related intangible asset	87
Deferred tax liabilities	(22)
Goodwill	**38**

i Of the £123m fair value at the acquisition date, £38m is attributable to non-controlling interests.

Customer-related intangibles relate to existing customer relationships in place at the acquisition date that have been recognised at fair value. Details on the assumptions used have been provided in Note 12. For equity securities and pooled investment funds, and assets linked to unit-linked contracts, fair values have been based on market observable inputs. The value of the Investment contract liabilities without discretionary participation features is based on the fair value of the underlying assets that back these liabilities.

As part of the transaction, M&G Group Limited has provided a guarantee in respect of an existing bank facility of the transaction counterparty amounting to ZAR 220m, which will be secured against a further 7% shareholding that the seller retains in PPMSA.

The goodwill of £38m arising from the acquisition represents the benefits of the acquisition in complementing M&G's strategy to grow its business and expand its range of services internationally. None of the goodwill recognised is expected to be deductible for income tax purposes. The full goodwill method has been used to account for the transaction and therefore the amount recorded includes the non-controlling interest share of the goodwill amount.

The revenue and profit before tax included in the consolidated statement of comprehensive income since the date of acquisition was £34m and £20m respectively. The revenue and profit before tax for the year ended 31 December 2021 for PPMSA was £61m and £34m respectively.

2.3 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 Group structure and products continued

2.3.1 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.

2.3.1.1 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.

2.3.1.2 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 extreme 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.

2.3.1.3 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 SAIF with-profits contracts. More detail on the provisions held in respect of guaranteed annuity options is provided in Note 26.1.1.

2 Group structure and products continued

2.3.2 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 26).

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.

2.3.3 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 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.

3 Segmental analysis

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

The financial management information was updated during the year to reflect a change in management structure. The Group's operating segments have been revised as a result. Our previous operating segments, "Savings and Asset Management" and "Heritage", have been replaced with two new operating segments: "Asset Management" and "Retail and Savings". Comparatives for 2020 are re-presented on the new segment basis.

3.1 Operating segments

The Group's operating segments are:

Asset Management

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

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

3 Segmental analysis continued

Retail and Savings

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

i Wealth

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

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

ii Heritage

Our Retail and Savings segment also includes that element of the business that was previously reported in a separate segment as Heritage.

The Heritage business includes individual and corporate pensions, annuities, life, savings and investment products. The majority of the products in the Heritage business are closed to new customers but may accept further contributions from existing policyholders[1]. The annuity contracts include: level annuities, which provide a fixed annuity payment; fixed increase annuities, which incorporate a periodic automatic fixed increase in annuity payments; and inflation-linked annuities, which incorporate a periodic increase based on a defined inflation index. Some inflation-linked annuities have minimum and/or maximum increases relative to the corresponding inflation index.

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

Some of the Group's Heritage products written through conventional and accumulating with-profits contracts, in the 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 2.3.1.3.

iii Other Retail and Savings

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

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

3 Segmental analysis continued

The Group's other reportable segment is:

Corporate Centre
Corporate Centre includes central corporate costs and debt costs.

3.2 Adjusted operating profit before tax methodology

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

For the Group's fee-based business, adjusted operating profit before tax includes fees received from customers and operating costs for the business including overheads, expenses required to meet regulatory requirements and regular business development/restructuring and other costs. Costs associated with fundamental one-off 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[2]: 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.

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 solely held 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;

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

3 Segmental analysis continued

- 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 longer-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

A gain of £35m was recognised as an adjusting item in the year ended 31 December 2021 in respect of the fair value gain of £51m on the acquisition of PPMSA, offset by a £16m loss from the transfer of the annuity portfolio to Rothesay. Further details on the PPMSA acquisition and transfer to Rothesay are included in Note 2. There were no such adjusting items for the year ended 31 December 2020.

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 one-off Group-wide restructuring and transformation and are therefore excluded from adjusted operating profit before tax.

Amortisation and impairment of intangible assets acquired in business combinations

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

3.3 Analysis of Group adjusted operating profit before tax by segment

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

i Of the fee-based revenues, £303m (2020: £228m) relates to revenues that Asset Management earned from the Retail and Savings segment. Other presentational differences when compared to the fee income in Note 5 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 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 6 which include costs allocated to the Policyholder. In the year to 31 December 2021, restructuring and other costs includes £48m in respect of our future ways of working and associated changes to our office space, and £45m of costs in relation to the integration of Ascentric. The £48m cost for future ways of working and associated changes to our office space includes an impairment of £29m which is presented in impairment of property, plant and equipment in the analysis of administrative and other expenses in Note 6.

3 Segmental analysis continued

For the year ended 31 December	2020			
	Asset Management £m	Retail and Savings £m	Corporate Centre £m	Total £m
Fee-based revenues[i]	989	231	–	1,220
Annuity margin	–	438	–	438
With-profits shareholder transfer net of hedging and other gains/(losses)[ii]	–	221	–	221
Adjusted operating income	989	890	–	1,879
Adjusted operating expenses	(669)	(250)	(101)	(1,020)
Other shareholder profit/(loss)	4	61	(142)	(77)
Share of profit from joint ventures and associates[iii]	10	–	–	10
Adjusted operating profit attributable to non-controlling interests	(4)	–	–	(4)
Adjusted operating profit/(loss) before tax	330	701	(243)	788
Short-term fluctuations in investment returns	5	673	–	678
Restructuring and other costs[iv]	(25)	(48)	–	(73)
IFRS profit/(loss) before tax and non-controlling interests attributable to equity holders	310	1,326	(243)	1,393
IFRS profit attributable to non-controlling interests	4	–	–	4
Profit/(loss) before tax attributable to equity holders	314	1,326	(243)	1,397

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

Each reportable segment reports adjusted operating income as its measure of revenue. Fee-based revenues 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. Share of profit from joint ventures and associates represents the Group's share of the profits of PPMSA, which was accounted for under the equity method until its acquisition on 4 July 2021. See Note 2.2.2 for further details.

3 Segmental analysis continued

3.4 Reconciliation of adjusted operating income and expenses to total revenues and expenses as presented in the consolidated income statement

The following tables provide a reconciliation of adjusted operating income and operating expenses, presented in the tables above, to total revenue net of reinsurance and total charges net of reinsurance respectively, as presented in the consolidated income statement:

For the year ended 31 December	2021 Income £m	2021 Expense £m	2020 Income £m	2020 Expense £m
Adjusted operating income and operating expenses	**1,891**	**(1,063)**	1,879	(1,020)
Items presented as other shareholder profit/(loss)	**89**	**(190)**	97	(174)
Benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance	**13,083**	**(13,083)**	10,764	(10,764)
Movements in third party interests in consolidated funds	**1,019**	**(1,019)**	(109)	109
Annuities and With-Profits Fund administration expenses	**698**	**(698)**	1,331	(1,331)
Renewal commission	**163**	**(163)**	185	(185)
Share of profit from joint ventures and associates	**6**	**–**	10	–
Tax charge attributable to policyholder returns	**626**	**–**	208	–
Short-term fluctuations in investment returns	**(537)**	**–**	678	–
Profit on disposal of business and corporate transactions	**35**	**–**	–	–
Restructuring and other costs	**–**	**(146)**	–	(73)
Amortisation of intangible assets acquired in business combinations	**–**	**(4)**	–	–
Other presentational items	**699**	**(780)**	173	(118)
IFRS total income and (total expenses)	**17,772**	**(17,146)**	15,216	(13,556)

Adjusted operating income and operating expenses exclude policyholder items which have an equal and opposite effect on revenue and charges in the consolidated income statement, such as premiums, policyholder investment returns, benefits and claims, movement in unallocated surplus of the With-Profits Fund and movements in third party interest in consolidated funds.

Other differences include presentational differences between reporting requirements and the determination of adjusted operating income and operating expenses, including:

- Administrative expenses in the annuity and with-profits portfolio, which are netted against adjusted operating income in the analysis of Group adjusted operating profit before tax by segment;
- Revenues which are required to meet the tax charge or credit attributable to policyholder returns, which are not included in the analysis of Group adjusted operating profit before tax by segment.

3.5 Total external revenue by geography

The following table provides a geographical segmentation of total earned premiums, net of reinsurance and other income (includes fee income and other income), as presented in the consolidated income statement:

For the year ended 31 December	2021 £m	2020 £m
United Kingdom:		
Earned premiums, net of reinsurance	**3,213**	4,280
Other income	**805**	768
Total United Kingdom	**4,018**	5,048
Rest of the world:		
Earned premiums, net of reinsurance	**552**	589
Other income	**293**	324
Total Rest of the world	**845**	913
Total:		
Earned premiums, net of reinsurance	**3,765**	4,869
Other income	**1,098**	1,092
Total	**4,863**	5,961

The geographical analyses of revenues from long-term business are based on the territory of the operating unit assuming the risk. Other income from external customers and clients in the Asset Management business is allocated based on customers and clients domicile.

3 Segmental analysis continued

Total non-current, non-financial assets by geographical location

The following table provides a geographical segmentation of non-current, non-financial assets as presented in the consolidated statement of financial position:

For the year ended 31 December	2021 £m	2020 £m
UK	**15,435**	14,862
Rest of the world	**8,977**	8,359
Total	**24,412**	23,221

Non-current, non-financial assets for this purpose consist of goodwill and intangible assets, deferred acquisition costs, property, plant and equipment, investment property, and investment in joint ventures and associates accounted for using the equity method.

4 Investment return

For the year ended 31 December	Note	2021 £m	2020 £m
Interest income arising from:			
Cash and cash equivalents		**4**	4
Deposits with credit institutions		**5**	31
Loans[i]		**208**	237
Debt securities		**1,967**	2,159
		2,184	2,431
Dividend income		**2,072**	1,679
Income from investment property:			
Rental income	16	**973**	997
Net gains/(losses) on investment property	16	**1,258**	(752)
		2,231	245
Gains/(losses) on financial instruments at fair value through profit and loss arising from:			
Equity securities and pooled investment funds		**9,298**	(533)
Loans		**10**	22
Debt securities		**(2,732)**	4,092
Derivatives		**(56)**	1,527
		6,520	5,108
Net reversal of impairment/(impairment) on loans held at amortised cost		**22**	(30)
Foreign exchange losses		**(120)**	(178)
Total investment return		**12,909**	9,255

i Interest arising on loans of £208m for the year ended 31 December 2021 (2020: £237m) comprises £109m (2020: £127m) arising on loans held at fair value through profit or loss and £99m (2020: £110m) arising on loans held at amortised cost.

5 Fee income

The following table disaggregates fee revenue by segment:

For the year ended 31 December	**2021 £m**	2020 £m
Management fees	**860**	910
Rebates	**(28)**	(34)
Performance fees and carried interest	**18**	42
Total Asset Management fee income	**850**	918
Investment contracts without discretionary participation features	**50**	47
Platform fees	**34**	11
Advice fees	**49**	55
Total Retail and Savings fee income	**133**	113
Total fee income	**983**	1,031

6 Administrative and other expenses

For the year ended 31 December	Note	**2021 £m**	2020 £m
Staff and employment costs		**731**	650
Acquisition costs incurred:			
Insurance contracts		**113**	145
Other contracts		**29**	27
Acquisition costs deferred:			
Insurance contracts	13	**(8)**	(11)
Other contracts	13	**(6)**	(2)
Amortisation of deferred acquisition costs:			
Insurance contracts	13	**6**	7
Other contracts	13	**7**	9
Impairment of deferred acquisition costs	13	**4**	3
Depreciation of property, plant and equipment	15	**123**	109
Impairment of property, plant and equipment[i]	15	**102**	98
Amortisation of intangible assets	12	**25**	19
Impairment of goodwill and intangible assets	12	**–**	16
Restructuring costs		**193**	148
Interest expense		**161**	153
Commission expense		**200**	224
Investment management fees		**165**	191
Property-related costs		**192**	215
Other expenses		**847**	733
Total administrative and other expenses		**2,884**	2,734

i Includes impairment recognised in respect of our future ways of working of £29m (2020: £nil) included in 'restructuring and other costs' within the Segmental Analysis in Note 3, and impairment of certain property, plant and equipment held by the Group's infrastructure capital private equity vehicles of £73m (2020: £95m).

In addition to the interest expense shown above of £161m (2020: £153m), the interest expense incurred in respect of subordinated liabilities for the year ended 31 December 2021 was £160m (2020: £167m). This is shown as finance costs in the consolidated income statement. Total finance costs incurred for the year ended 31 December 2021 were £321m (2020: £320m).

7 Staff and employment costs

The average number of staff employed by the Group during the year was:

For the year ended 31 December	2021	2020
Average staff headcount	**6,993**	6,683

The following table shows the staff costs and other employee-related costs:

For the year ended 31 December	Note	2021 £m	2020 £m
Wages and salaries		**665**	620
Social security costs		**79**	72
Share-based payments	38	**40**	51
Pension costs:			
Defined benefit schemes	17	**36**	45
Defined contribution schemes		**52**	47
Total staff and employment costs		**872**	835

Information in respect of Directors' remuneration is provided in the Directors' remuneration report on pages 119 to 159.

The table below provides a breakdown of staff and employment costs charged within administrative and other expenses:

For the year ended 31 December	2021 £m	2020 £m
Staff and employment costs	**731**	650
Acquisition costs	**77**	77
Restructuring costs	**59**	48
Other expenses	**5**	60
Total staff and employment costs	**872**	835

8 Fees payable to the auditor

The following table shows the auditor remuneration.

For the year ended 31 December	2021 £m	2020 £m
Fees payable to the Company's auditor and its associates for other services:		
Fees payable to the Company's auditors for the audit of the Company's individual and consolidated financial statements	**2.1**	2.0
Audit of subsidiaries pursuant to legislation	**6.5**	6.6
Audit-related assurance services	**2.7**	2.6
Other assurance services	**0.6**	0.6
Total fees payable to the auditor	**11.9**	11.8

For more information on non-audit services, refer to the Audit Committee Report on pages 110 to 116.

Additional fees payable to the auditor

Fees payable to the auditor disclosed above exclude audit and non-audit fees payable to the Group's principal auditor by funds managed by the Group, but which are not controlled by the Group, and therefore are not consolidated in the consolidated financial statements.

For the year ended 31 December 2021, fees of £0.3m (2020: £0.3m) were incurred in relation to the audit of the Group's defined benefit pension schemes.

9 Tax

9.1 Tax charged to the consolidated income statement

For the year ended 31 December	**2021 £m**	2020 £m
The total tax charge comprises:		
Current tax		
Current year	**398**	581
Adjustments in respect of prior years	**4**	17
Total current tax	**402**	598
Deferred tax:		
Origination and reversal of temporary differences in the year	**236**	(123)
Adjustments in respect of prior years	**(23)**	(12)
Total deferred tax	**213**	(135)
Total tax charge	**615**	463

The tax charge above, comprising current and deferred tax, can be analysed as follows:

For the year ended 31 December	**2021 £m**	2020 £m
UK tax	**528**	392
Overseas tax	**87**	71
Total tax charge	**615**	463

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

The profit before tax reflected in the consolidated income statement for the year ended 31 December 2021 of £707m (2020: £1,605m) 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 Group under IAS 12. Consequently, this measure of profit before all taxes is not representative of pre-tax profits attributable to equity holders.

The tax charge attributable to policyholder returns is removed from the Group's total profit 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 charge.

	2021			2020		
For the year ended 31 December	**Equity holders £m**	**Policyholders £m**	**Total £m**	Equity holders £m	Policyholders £m	Total £m
Profit before tax	**81**	**626**	**707**	1,397	208	1,605
Tax credit/(charge)	**11**	**(626)**	**(615)**	(255)	(208)	(463)
Profit after tax for the year	**92**	**–**	**92**	1,142	–	1,142

9 Tax continued

9.1.2 Tax reconciliation

For the year ended 31 December	2021 Equity holders £m	2021 Policyholders £m	2021 Total £m	2020 Equity holders £m	2020 Policyholders £m	2020 Total £m
Profit before tax	**81**	**626**	**707**	1,397	208	1,605
Tax charge based on the standard UK corporation tax rate of 19% (2020: 19%)	**15**	**119**	**134**	265	40	305
Impact of profits earned in jurisdictions with different statutory rates to the UK	**2**	**–**	**2**	1	–	1
(weighted average rate for equity holders is 19% (2020: 19%))						
Recurring items						
Different basis of taxation – policyholders	**–**	**520**	**520**	–	150	150
Deductions not allowable for tax purposes	**15**	**–**	**15**	16	–	16
Effects of results of joint ventures and associates[i]	**(1)**	**–**	**(1)**	(2)	–	(2)
Income and gains not taxable or taxable at concessionary rates	**(10)**	**–**	**(10)**	(15)	–	(15)
Changes in recognition of deferred tax and effect of unrecognised tax losses	**(16)**	**–**	**(16)**	(3)	–	(3)
Other	**3**	**–**	**3**	–	–	–
Non recurring items						
Adjustments in relation to prior periods	**(6)**	**(13)**	**(19)**	(13)	18	5
Changes in local statutory tax rates or laws[ii]	**(3)**	**–**	**(3)**	6	–	6
Non-taxable income – PPMSA acquisition[iii]	**(10)**	**–**	**(10)**	–	–	–
Tax (credit)/charge	**(11)**	**626**	**615**	255	208	463

i 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.

ii 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.

iii Non-taxable income during the year ended 31 December 2021 relates to the £51m gain recognised on the acquisition of the additional 0.13% shareholding in PPMSA, see Note 2.2.2.

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 2021 is the UK Corporation tax rate of 19% as the majority of the Group's profits are earned and taxed in the UK.

9.1.3 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 £512m, 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.

After years of negotiations, the OECD announced on 8 October 2021 that 136 countries out of 140 members had reached agreement on a sweeping overhaul of the international tax system. The G-20 leaders endorsed the plan on 30 October during the Leaders' Summit. The plan follows a Two-Pillar framework which sets out the principles of an ambitious solution to tackle the tax challenges arising from an increasingly globalised and digital global economy. Pillar One addresses taxing rights and distribution of profits, and Pillar Two the imposition of a global minimum tax. On 20 December 2021, the OECD published "Global Anti-Base Erosion Model Rules (Pillar Two)" ("model rules"). Pillar Two will introduce a global minimum tax rate of 15% on large companies. The OECD will continue to develop the Pillar Two model rules for bringing it into domestic legislation during 2022, to be effective in 2023. The Two-Pillar framework is legally and technically complex and represents a significant departure from the current international tax framework. The published rules provide for a mix of accounting and tax concepts, and will, in effect, require large businesses to keep a third set of books for Pillar Two calculation purposes. The Group generates its profits predominantly in the UK and the remainder mainly in jurisdictions with a tax rate higher than 15%. Whilst the Two-pillar framework is not expected to have a significant impact on the future effective tax rate, much will depend upon the final scoping and basis of enacted legislation and the impact on the insurance and asset management industries, in particular, treatment of investment in fund structures and policyholder attributes.

9 Tax continued

9.1.4 Use of accounting estimates and judgements

The calculation of the Group's tax charge involves a degree of estimation and judgement. The two principal areas of judgement that could impact the reported tax position are the recognition and measurement of deferred tax assets and the level of provisioning for uncertain tax positions.

The recognition of a deferred tax asset relies on an assessment of the probability of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning strategies.

The provisions for uncertain tax positions cover a wide range of issues, only a fraction of these 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.

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.

9.1.5 Tax credited to other comprehensive income

For the year ended 31 December	**2021 £m**	2020 £m
Actuarial gains/(losses) on defined benefit pension schemes	**19**	(23)
Total tax charge/(credit) to other comprehensive income	**19**	(23)

9.1.6 Tax credited to equity

For the year ended 31 December	**2021 £m**	2020 £m
Subordinated liabilities	**(21)**	(8)
Share-based payments[i]	**(4)**	–
Total tax credit to equity	**(25)**	(8)

i The year ended 31 December 2020 includes net nil impact to equity from the transfer of £5m tax benefits on vested share schemes from other reserves to retained earnings.

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

Changes in tax laws and rates may affect recorded deferred tax assets and liabilities. 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 changes to the UK rate of corporation tax, the carrying values of our deferred tax assets and liabilities were revalued. The impact of which was limited primarily due to the majority of the UK deferred tax balances being measured at a policyholder rate of tax which remains unaffected.

9 Tax continued

For the year ended 31 December	2021 Unrealised gains/ (losses) on investments[i] £m	Life tax transitional adjustments[ii] £m	Other short-term timing differences[iii] £m	Deferred acquisition costs[iv] £m	Defined benefit pensions £m	Capital allowances £m	Tax losses carried forward[v] £m	Share-based payments and deferred compensation £m	Total £m
Assets	7	2	115	51	13	13	10	15	226
Liabilities	(883)	(70)	(11)	(6)	(30)	(34)	–	–	(1,034)
As at 1 January 2021	**(876)**	**(68)**	**104**	**45**	**(17)**	**(21)**	**10**	**15**	**(808)**
Income statement	(269)	42	11	(6)	(4)	9	3	1	(213)
Equity and other comprehensive income	–	–	20	–	(19)	–	–	4	5
Other movements/ foreign exchange	–	–	(22)	–	–	–	–	–	(22)
As at 31 December 2021	**(1,145)**	**(26)**	**113**	**39**	**(40)**	**(12)**	**13**	**20**	**(1,038)**
Assets	3	–	162	42	8	25	13	20	273
Liabilities	(1,148)	(26)	(49)	(3)	(48)	(37)	–	–	(1,311)
As at 31 December 2021	**(1,145)**	**(26)**	**113**	**39**	**(40)**	**(12)**	**13**	**20**	**(1,038)**

For the year ended 31 December	2020 Unrealised gains/ (losses) on investments[i] £m	Life tax transitional adjustments[ii] £m	Other short-term timing differences £m	Deferred acquisition costs[iv] £m	Defined benefit pensions £m	Capital allowances £m	Tax losses carried forward[v] £m	Share-based payments and deferred compensation £m	Total £m
Assets	7	2	77	60	7	13	18	23	207
Liabilities	(1,006)	(95)	(4)	(7)	(40)	(42)	–	–	(1,194)
As at 1 January 2020	(999)	(93)	73	53	(33)	(29)	18	23	(987)
Income statement	119	25	23	(8)	(7)	(1)	(8)	(8)	135
Equity and other comprehensive income	–	–	8	–	23	–	–	–	31
Other movements/ foreign exchange	4	–	–	–	–	9	–	–	13
As at 31 December 2020	(876)	(68)	104	45	(17)	(21)	10	15	(808)
Assets	7	2	115	51	13	13	10	15	226
Liabilities	(883)	(70)	(11)	(6)	(30)	(34)	–	–	(1,034)
As at 31 December 2020	(876)	(68)	104	45	(17)	(21)	10	15	(808)

i Deferred tax on unrealised gains/(losses) on investments primarily arises on two key components. The largest component relates to gains/(losses) on certain investments which are only taxed when realised, i.e. when an asset is sold. The second component relates to gains/(losses) on certain investments held by life insurance companies, which for UK corporation tax purposes are deemed to have been disposed of and immediately reacquired at market value at the end of each accounting period. Any gain/(loss) arising on the deemed disposal is required to be spread over a seven-year period.

ii The UK Government made substantial changes to the rules relating to the taxation of life insurance companies which applied from 1 January 2013. A net deferred tax liability was recognised for the temporary difference that arose on the transition to the new regime. The deferred tax balances are scheduled to reverse by 31 December 2022.

iii The closing balance at 31 December 2021 primarily comprises £88m of deferred tax assets on subordinated debt, together with a £22m deferred tax liability on customer-related intangible assets arising on the acquisition of PPMSA (see Note 2.2.2). The remaining balance primarily relates to deferred tax assets on employee related compensation.

iv The Group incurs various incremental, directly attributable acquisition costs in obtaining new contracts. For UK corporation tax purposes, acquisition expenses in respect of certain life insurance business is required to be spread over a seven-year period. A deferred tax asset was recognised for the expected future tax deductions.

v The tax losses carried forward relate wholly to UK capital losses. Under UK law, capital losses can be carried forward indefinitely. A deferred tax asset has been recognised on a proportion of these carried forward losses as the Group considers it is probable that sufficient future UK capital gains will be available against which these losses can be utilised.

9 Tax continued

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

	Deferred tax assets		Deferred tax liabilities	
	2021 £m	2020 £m	**2021 £m**	2020 £m
UK	**68**	92	**(960)**	(700)
Overseas	**51**	16	**(197)**	(216)
As at 31 December	**119**	108	**(1,157)**	(916)

9.2.1 Unrecognised deferred tax

Tax losses and temporary differences

At the end of the reporting period, the Group have unused tax losses of £512m (2020: £547m) and temporary differences of £2m (2020: £49m) for which no deferred tax asset is being recognised. The Group's unused tax losses primarily relate to capital losses in the UK of £502m (2019: £539m). No deferred tax asset is recognised on the unused tax losses of £512m 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 re-invested 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.

9.3 Current tax assets and liabilities

	Current tax assets		Current tax liabilities	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Corporation tax	**347**	389	**(264)**	(222)
Other taxes	**28**	29	**(59)**	(54)
As at 31 December	**375**	418	**(323)**	(276)

Movements on corporation tax current tax assets and liabilities were as follows:

For the year ended 31 December	**2021 £m**	2020 £m
Net corporation tax asset as at 1 January	**167**	109
Income statement	**(402)**	(598)
Reserves movement for the period	**1**	–
Corporation tax paid	**315**	633
Other movements	**2**	23
Net corporation tax asset as at 31 December	**83**	167
Corporation tax assets	**347**	389
UK	**316**	368
Overseas	**31**	21
Corporation tax liabilities	**(264)**	(222)
UK	**(251)**	(208)
Overseas	**(13)**	(14)
Net corporation tax asset as at 31 December	**83**	167

	Corporation tax assets		Corporation tax liabilities	
As at 31 December	**2021 £m**	2020 £m	**2021 £m**	2020 £m
Tax recoverable/(due) within 12 months	**347**	389	**(264)**	(221)
Tax recoverable/(due) after 12 months	**–**	–	**–**	(1)
As at 31 December	**347**	389	**(264)**	(222)

9 Tax continued

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

In February 2018, the Supreme Court heard HMRC's appeal against the earlier Court of Appeal decision in PAC's favour. The decision of the Supreme Court, released in July 2018, upheld the main point of dispute in PAC's favour but reversed the decisions of the lower courts on some practical points of how to apply that principle. The Supreme Court issued its order giving effect to its decision in October 2019, stating any remaining issues of computation be remitted back to the High Court. PAC and HMRC are working through the mechanics of implementing the Supreme Court decisions. To date, this work has led to a reduction in the estimate for policyholder tax credit recoverable, and the associated estimate of interest receivable. As at 31 December 2021, PAC has recognised a total policyholder tax credit of £114m (2020: £122m) in respect of its claim against HMRC. Of this amount, £40m (2020: £39m) has been paid by HMRC leaving a tax recoverable balance of £74m (2020: £83m) recorded as an amount of tax due from HMRC. PAC will be entitled to interest on the tax repaid. As a result of the COVID pandemic the timing to finalise the issue has been delayed. It is now expected to be finalised during 2022 at which point PAC should receive full and final payment.

9.4 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, there will be an increase to our effective tax rate for periods from 2023 onwards. The change to the carrying values of our deferred tax assets and liabilities was not significant primarily due to the majority of the UK deferred tax balances being measured at a policyholder rate of tax which is unaffected by the rate increase.

10 Earnings per share

Basic earnings per share for the year ended 31 December 2021 was 3.3p (2020: 44.4p) and diluted earnings per share was 3.2p (2020: 44.0p). 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 following table shows details of basic and diluted earnings per share:

For the year ended 31 December	2021 £m	2020 £m
Profit attributable to equity holders of M&G plc	**83**	1,138

For the year ended 31 December	2021 Millions	2020 Millions
Weighted average number of ordinary shares outstanding	**2,542**	2,563
Dilutive effect of share options and awards	**33**	24
Weighted average number of diluted ordinary shares outstanding	**2,575**	2,587

For the year ended 31 December	2021 Pence per share	2020 Pence per share
Basic earnings per share	**3.3**	44.4
Diluted earnings per share	**3.2**	44.0

11 Dividends

11.1 Dividends

For the year ended 31 December	2021 Pence per share	2021 £m	2020 Pence per share	2020 £m
Dividends relating to reporting period:				
First interim dividend – Ordinary	**6.1**	**156**	6.0	152
Second interim dividend – Ordinary	**12.2**	**311**	12.2	310
Total	**18.3**	**467**	18.2	462
Dividends paid in reporting period:				
Prior year's interim dividend – Ordinary	**12.2**	**310**	11.9	310
Prior year's interim dividend – Special dividends	**–**	**–**	3.9	100
First interim dividend – Ordinary	**6.1**	**156**	6.0	152
Total		**466**		562

Subsequent to 31 December 2021, the Board has declared a second interim dividend for 2021 of 12.2 pence per ordinary share and, an estimated £311m in total. The dividend is expected to be paid on 28 April 2022 and will be recorded as an appropriation of retained earnings in the financial statements at the time that it is paid.

12 Goodwill and intangible assets

For the year ended 31 December	2021 Goodwill £m	2021 Other Intangibles £m	2021 Total £m	2020 Goodwill £m	2020 Other Intangibles £m	2020 Total £m
Cost						
At 1 January	**1,375**	**255**	**1,630**	1,368	174	1,542
Transfer to held for sale	**–**	**–**	**–**	(11)	–	(11)
Additions:						
Arising on acquisitions	**38**	**87**	**125**	21	40	61
Internally generated	**–**	**7**	**7**	–	2	2
Other purchases	**–**	**47**	**47**	–	38	38
Disposals and transfers	**–**	**(54)**	**(54)**	(6)	(4)	(10)
Foreign exchange differences	**(2)**	**(4)**	**(6)**	3	5	8
At 31 December	**1,411**	**338**	**1,749**	1,375	255	1,630
Accumulated amortisation and impairment						
At 1 January	**(20)**	**(115)**	**(135)**	(5)	(98)	(103)
Amortisation	**–**	**(25)**	**(25)**	–	(19)	(19)
Impairment	**–**	**–**	**–**	(15)	(1)	(16)
Disposals and transfers	**–**	**26**	**26**	–	3	3
Foreign exchange differences	**–**	**–**	**–**	–	–	–
At 31 December	**(20)**	**(114)**	**(134)**	(20)	(115)	(135)
Net book amount	**1,391**	**224**	**1,615**	1,355	140	1,495

For the year ended 31 December	Note	2021 £m	2020 £m
Goodwill comprises:			
Arising on acquisition of M&G Group Limited		**1,153**	1,153
Arising on acquisition of subsidiaries held by the With-Profits Fund		**179**	181
Arising on acquisition of Wrap IFA Services Limited		**21**	21
Arising on acquisition of PPMSA	2	**38**	–
		1,391	1,355

12 Goodwill and intangible assets continued

12.1 Impairment assessment

Goodwill does not generate cash flows independently of other groups of assets and thus is assigned to a group of cash-generating units for the purposes of impairment testing. The group of cash-generating units are based upon how management monitors the business and represent the lowest level to which goodwill can be allocated on a reasonable basis.

Goodwill is tested annually for impairment, and where there is an indication of impairment, by comparing the carrying amount of the group of cash-generating units, including any goodwill, with its recoverable amount.

Group of cash-generating units comprising M&G Group Limited

The carrying value of the goodwill, arising on the acquisition of M&G Group Limited, relates to the Retail Asset Management, Institutional Asset Management and Internal Asset Management cash-generating units, which comprises the Asset Management segment. An impairment assessment was undertaken as at 31 December 2021 which resulted in no impairment charge being recognised.

The recoverable amount of the group of cash-generating units was determined by calculating the value in use. The value in use represents the present value of future cash flows based on the business plan to 2024 approved by management, and relevant assumptions for cash flows for later years.

The future cash flows used in the value in use calculation are based on a set of economic, market and business assumptions. These include the direct and secondary effects of recent developments, such as changes in global equity markets and trends in fund flows, which are considered by management in arriving at the expectations for the final projections for the business plan. The business plan considers the growth in customer preference for ESG products, including those aimed at managing and addressing climate risk, and its impact on projected AUMA flows based on our strategy. MGG being an asset manager does not hold material investments on its balance sheet which would directly be impacted by climate risk. Given this is an emerging area, and given the current available data and the sophistication of the models, forecast cash flows may not fully reflect the potential impact of climate risk.

Based on the assessment, the value in use of the group of cash-generating units was higher than the carrying value and no impairment has been recognised as at 31 December 2021 in respect of goodwill arising on the acquisition of M&G Group Limited.

The value in use is particularly sensitive to a number of key assumptions as follows:

- A terminal multiplier of 13x was applied to the cashflows forecasted for the final year of the business plan to determine the cashflows beyond the projection period, based on expected price/earnings ratio in the sector. The terminal multiplier external indicators, which includes market expectations on climate risk. Reducing the terminal multiplier to 12x would result in the value in use decreasing by £219m. This would not result in any impairment charge being recorded for goodwill.

  In the previous year, an assumed growth rate on forecast cash flows beyond the terminal year of 2.0% was used to extrapolate beyond the forecast period.
- The pre-tax discount rate as at 31 December 2021 was 14% (2020: 14%) and is based on the cost of equity for the Asset Management business derived using the capital asset pricing model and adjusted for forecasting risk. A 1% increase in the discount rate would result in the value in use decreasing by £84m. This would not result in any impairment charge being recorded for goodwill.
- That asset management contracts continue on similar terms.

No reasonable change in assumptions stated above that would result in any impairment being recorded. Furthermore, there would be no impairment recorded even if the individual stresses to assumptions stated above were to apply concurrently which demonstrates the significant headroom available on the carrying value.

12 Goodwill and intangible assets continued

Acquisition of subsidiaries held by the With-Profits Fund

Goodwill arising on acquisition of subsidiaries held relates to acquisitions made within consolidated infrastructure private equity vehicles which are held by the With-Profits Fund. Management have undertaken an impairment assessment by comparing the fair value of the subsidiaries with their carrying value. As a result of the assessment, no impairment was recognised for the year ended 31 December 2021 (2020: £15m).

12.2 Intangible assets

Intangible assets comprise insurance contracts and customer relationships acquired through business combinations, software, service concessions, royalties and licences.

Customer relationships

To date, and as a result of corporate activity, there are two customer relationships which have been recognised by the Group as part of the acquisition of Wrap IFA Services Limited and PPMSA.

The description of the two separate intangible assets recognised, including their estimated useful life and acquisition date is as follows:

Customer related intangible	Average useful life at acquisition date	Fair value on acquisition date £m	Carrying value 2021 £m	Carrying value 2020 £m
Wrap IFA Services Limited	7 years	6	6	6
PPMSA	12 years	87	83	–

In arriving at the fair value of intangibles assets acquired in business combinations, a number of assumptions and judgements are applied.

The customer relationship obtained as part of the acquisition of PPMSA was valued using a discounted cash flow model with an appropriate terminal multiplier applied at the end of the forecast period.

The key assumptions in measuring the fair value of the customer related intangibles at date of acquisition were:

- Net attrition – net attrition represents the anticipated rate of outflows of assets under management net of inflows from existing customers and market movements. This assumption was based on recent experience using actual data as an indicator of future attrition. An increase of 2% in net attrition would result in the valuation decreasing by £7m.
- Discount rate – A discount rate of 12% was applied derived from the capital asset pricing model, using a basket of peers, which operated in the same market as the business acquired. An increase of 1% in the discount rate would result in the valuation decreasing by £3m.
- Terminal multiplier – A terminal multiplier of 9x was applied based on price earnings ratio for a comparable peers, adjusted to reflect the individual circumstances of the book of business being acquired. A decrease in the terminal multiplier to 8x would result in the valuation decreasing by £6m.

The above assumptions, and in particular the net attrition assumption, were also used to determine the useful economic life at the acquisition date of each asset used for amortisation. The Group applied the reducing balance method given the nature of the customer relationships suggest the benefits will reduce disproportionally over time.

13 Deferred acquisition costs

For the year ended 31 December	2021 Insurance contracts £m	2021 Other contracts £m	2021 Total £m	2020 Insurance contracts £m	2020 Other contracts £m	2020 Total £m
At 1 January	**59**	**39**	**98**	57	47	104
Additions	**8**	**6**	**14**	11	2	13
Amortisation to the income statement	**(6)**	**(7)**	**(13)**	(7)	(9)	(16)
Impairment	**(2)**	**(2)**	**(4)**	(2)	(1)	(3)
Exchange differences	**(1)**	**–**	**(1)**	–	–	–
At 31 December	**58**	**36**	**94**	59	39	98

14 Investments in joint ventures and associates

14.1 Investments in joint ventures and associates accounted for using the equity method

As at 31 December	2021 £m	2020 £m
Investment in joint ventures	**469**	421
Investment in associates[i]	**–**	35
Investments in joint ventures and associates accounted for using the equity method	**469**	456

For the year ended 31 December	2021 £m	2020[iii] £m
Share of profit/(loss) from joint ventures	**75**	(65)
Share of profit from associates[ii]	**6**	10
Share of profit/(loss) from joint ventures and associates accounted for using the equity method	**81**	(55)

i Investment in associates at 31 December 2020 included investment in PPMSA of £35m. As per Note 2.2.2 the Group acquired a controlling stake in PPMSA on 4 July 2021 therefore no amount is included within the 31 December 2021 position.

ii Included within the year ended 31 December 2021 share of profit from associates is £6m from PPMSA up to the acquisition date (2020: £10m, representing the full 12 months).

iii For the year ended 31 December 2020 £4m loss has been reallocated from share of profit from associates to share of profit/(loss) from joint ventures.

There is no share of other comprehensive income from joint ventures or associates.

14.1.1 Investment in joint ventures accounted for using the equity method

All of the Group's investments in joint ventures which are accounted for using the equity method are property vehicles held in the With-Profits Fund. The results of the Group's joint ventures are reflected in the movement in the unallocated surplus of the With-Profits Fund and therefore do not affect shareholders' results.

No joint ventures are considered to be material individually or in aggregate to the Group for the years ended 31 December 2021 and 31 December 2020. None of the Group's joint ventures are listed and financial information of these investments covering the same reporting period as that of the Group has been used for accounting for these investments using the equity method.

14.1.2 Investment in associates accounted for using the equity method

During the year the Group acquired a controlling stake of PPMSA on 4 July 2021 as set out in Note 2.2.2. Until this date PPMSA was recognised as an associate accounted for using the equity method.

14.2 Interests in associates accounted for at fair value through profit or loss (FVTPL)

The Group has investments in OEICs, unit trusts, funds holding collateralised debt obligations, property unit trusts and venture capital investments of the With-Profits Fund where the Group has significant influence. These investments are accounted for on a FVTPL basis and are included within equity securities and pooled investment funds in the consolidated statement of financial position. None of the associates accounted for at FVTPL are considered individually material to the Group for the years ended 31 December 2021 and 31 December 2020.

The aggregate fair value of associates accounted for at FVTPL was £358m as at 31 December 2021 (2020: £620m).

15 Property, plant and equipment

Property, plant and equipment comprises right of use assets, properties and land occupied by the Group and other tangible assets. A reconciliation of the carrying amount of these items from the beginning to the end of the year is as follows:

	2021				2020			
For the year ended 31 December	Right of use assets £m	Group occupied property £m	Other tangible assets £m	Total £m	Right of use assets £m	Group occupied property £m	Other tangible assets £m	Total £m
Cost								
At 1 January	**292**	**159**	**1,968**	**2,419**	300	113	1,411	1,824
Transfer to held for sale	–	–	–	–	(1)	(2)	(118)	(121)
Additions	**22**	–	**770**	**792**	26	39	782	847
Arising on acquisition of subsidiaries	**5**	–	**2**	**7**	–	–	1	1
Disposals and transfers	**(12)**	**(47)**	**(7)**	**(66)**	(32)	–	(138)	(170)
Foreign exchange differences	**(1)**	**(6)**	**(38)**	**(45)**	(1)	9	30	38
At 31 December	**306**	**106**	**2,695**	**3,107**	292	159	1,968	2,419
Accumulated depreciation and impairment								
At 1 January	**(52)**	**(19)**	**(282)**	**(353)**	(33)	(15)	(271)	(319)
Transfer to held for sale	–	–	–	–	1	–	54	55
Depreciation charge for the year	**(26)**	**(3)**	**(94)**	**(123)**	(26)	(3)	(80)	(109)
Arising on acquisition of subsidiaries	–	–	**(2)**	**(2)**	–	–	–	–
Impairment	**(13)**	**(2)**	**(87)**	**(102)**	(3)	–	(95)	(98)
Disposals and transfers	**2**	**4**	**2**	**8**	8	–	118	126
Foreign exchange differences	**1**	**1**	**(1)**	**1**	1	(1)	(8)	(8)
At 31 December	**(88)**	**(19)**	**(464)**	**(571)**	(52)	(19)	(282)	(353)
Net book amount	**218**	**87**	**2,231**	**2,536**	240	140	1,686	2,066

15.1 Right of use assets

The Group recognises right of use assets for leases of land and buildings which are used as office space across various locations. Some leases include lease break options that are exercisable at the option of the Group. As at 31 December 2021, £33m (2020: £27m) of right of use assets were held by the With-Profits Fund.

15.2 Other tangible assets

As at 31 December 2021, £2,119m (2020: £1,558m) of other tangible assets were held by the With-Profits Fund, of which £563m (2020: £218m) are assets under construction. The other tangible assets within the With-Profits Fund relate primarily to infrastructure projects and aviation assets funded by the Group's consolidated private equity vehicles.

During the year £73m (2020: £95m) of impairment was recognised in respect of tangible assets held by the Group's infrastructure capital private equity vehicles.

16 Investment property

Investment property is primarily held by the With-Profits Fund and is carried at fair value. A reconciliation of the carrying amount of investment property from the beginning of the year to the end of the year is set out below:

For the year ended 31 December	2021 £m	2020 £m
At 1 January	**19,106**	19,136
Transfer to held for sale	**(947)**	(105)
Additions:		
Resulting from property acquisitions	**1,809**	722
Resulting from expenditure capitalised	**193**	152
Disposals	**(1,310)**	(281)
Net fair value gains/(losses)	**1,258**	(752)
Foreign exchange differences	**(411)**	234
At 31 December	**19,698**	19,106

For the year ended 31 December 2021, rental income from investment property was £973m (2020: £997m). Direct operating expenses, including repairs and maintenance arising from these properties for the year ended 31 December 2021 were £123m (2020: £99m).

The Group's policy is to let investment property to tenants through operating leases. The leases typically include clauses to enable periodic rent reviews according to prevailing market conditions. In some agreements, the rents might be variable and linked to an index. Certain leases contain options to break before the end of the lease term by either party.

Minimum future rental income to be received on non-cancellable leases of the Group's freehold and leasehold investment property are receivable in the following periods:

For the year ended 31 December	2021 £m	2020 £m
Less than 1 year	**477**	485
1 to 5 years	**1,474**	1,550
Over 5 years	**2,391**	2,619
Total minimum future rental income	**4,342**	4,654

17 Defined benefit pension schemes

17.1 Background and summary economic and IAS 19 financial positions

The Group operates three defined benefit pension schemes. The largest defined benefit scheme as at 31 December 2021 is the Prudential Staff Pension Scheme (PSPS), which accounts for 80% (2020: 81%) 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. 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 the schemes (if any) would be recognised in full. As at 31 December 2021 the SASPS and M&GGPS schemes are in deficit based on the IAS 19 valuation.

M&GGPS is in a net economic surplus position but in deficit on an IAS 19 basis as the pension scheme has investments in insurance policies issued by Prudential Pensions Limited, a subsidiary of the Group, through which it invests in certain pooled funds. Under IAS 19, non-transferable insurance policies issued by a related party do not qualify as plan assets. The SASPS net economic pension deficit is attributed 40% to the With-Profits Fund and 60% to the Group's shareholders.

17 Defined benefit pension schemes continued

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

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

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

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.

	2020			
As at 31 December	PSPS £m	SASPS £m	M&GGPS £m	Total £m
Fair value of plan assets	7,884	967	742	9,593
Present value of defined benefit obligation	(7,109)	(1,073)	(605)	(8,787)
Effect of restriction on surplus	(717)	–	–	(717)
Net economic pension surplus/(deficit)[i]	58	(106)	137	89
Eliminate group issued insurance policies	–	–	(201)	(201)
Net pension surplus/(deficit) attributable to the Group	58	(106)	(64)	(112)

	2020			
As at 31 December	PSPS £m	SASPS £m	M&GGPS £m	Total £m
Attributable to:				
Shareholder-backed business	17	(64)	(64)	(111)
With-Profits Fund	41	(42)	–	(1)
Net total pension surplus/(deficit)	58	(106)	(64)	(112)

17.1.1 Triennial actuarial valuations

A full actuarial valuation is required for defined benefit pension schemes every three years in order to assess the appropriate level of funding for schemes in relation to their commitments. These valuations include assessments of the likely rate of return on the assets held within the separate trustee administered funds. The actuarial valuation differs from the IAS 19 accounting basis valuation in a number of respects, including the discount rate assumption where IAS 19 prescribes a rate based on high-quality corporate bonds while a more prudent assumption is typically used for the actuarial valuation.

17 Defined benefit pension schemes continued

Summary information on the latest completed actuarial valuation for each of the schemes, as at 31 December 2021, is shown in the table below.

	PSPS	SASPS	M&GGPS
Last completed actuarial valuation date	05 April 2020	31 March 2020	31 December 2020
Funding level at the last valuation	108%	85%	116%
Deficit funding arrangement agreed with the Trustees based on the last completed valuation	No deficit funding required	Deficit funding of £26m per annum from 1 April 2020 until 31 December 2025, or earlier if the scheme's funding level reaches 100% before date. The deficit funding will be reviewed every three years at subsequent valuations	No deficit funding required
Current level of employer contributions for active members	Are at the minimum level required under the scheme rules (approximately £2.5m per annum)	Approximately £4.5m per annum	Approximately £4m per annum
Contributions to cover ongoing administration and other expenses	Approximately £7m per annum until April 2023, then falling to approximately £6.25m per annum	Approximately £1.8m per annum	Approximately £1.5m per annum

The contributions detailed above broadly represent the Group's current expectation of amounts that will be paid to each respective plan in the next annual reporting period.

17.1.2 Risks to which the defined benefit schemes expose the Group

The plans are subject to the statutory funding objective requirements of the Pensions Act 2004, which require that plans be funded to at least the level of their technical provisions (an actuarial estimate of the assets needed to provide for the benefits already built up under the plan). Where there is a deficit, the employers of the schemes would agree a deficit recovery plan. Accordingly, the pension schemes expose the Group to a number of risks, the most significant of which are interest rate risk, equity risk, inflation risk, credit risk and mortality risk.

17.1.3 Corporate governance

The Group's pension schemes are established under trust and are subject to UK legal requirements; this includes being subject to regulation by the Pensions Regulator in accordance with the Pensions Act 2021. Each scheme has a corporate trustee to which some directors are appointed by Group employers with the remaining directors nominated by members in accordance with UK legal requirements. The Trustees have the ultimate responsibility to ensure that each scheme is managed in accordance with its Trust Deed and Rules. The Trustees act in the best interests of the schemes' beneficiaries; this includes taking appropriate account of each employer's legal obligation and financial ability to support the schemes when setting investment strategy and when agreeing funding with the employers. The employers' contribution commitments are formally updated at each triennial valuation; between valuations funding levels and employer strength continue to be monitored, with the Trustees being able to bring forward the next triennial valuation if they consider it appropriate to do so.

All of the Group's defined benefit pension schemes are final salary schemes, which are closed to new entrants. The pensionable salaries for most members are capped at the levels as at 30 September 2019. The Trustee of each scheme sets the general investment policy and specifies any restrictions on types of investment and the degrees of divergence permitted from the benchmark, but delegates the responsibility for selection and realisation of specific investments to the investment managers. The Trustees consult with the principal employer for each scheme on the investment principles, but the ultimate responsibility for the investment of the assets of the schemes lies with the trustees.

The Trustees of each of the schemes manage the investment strategy of the scheme to achieve an acceptable balance between investing in the assets that most closely match the expected benefit payments and assets that are expected to achieve a greater return in the hope of reducing the contributions required or providing additional benefits to members. For all three schemes, and especially PSPS and SASPS, a significant portion of the scheme assets are invested in liability matching assets such as bonds and gilts, including index-linked gilts, to partially hedge against inflation. In addition, the schemes maintain portfolios of interest rate and inflation swaps to match more closely the duration and inflation profiles of their assets to their liabilities.

All three schemes have invested in a mix of both return-seeking assets, such as equities and property, and matching assets, including leveraged liability-driven investment portfolios to reflect the liability profile of the scheme. They manage the risks of the return-seeking exposure by investing in a diversified mix of investments.

17 Defined benefit pension schemes continued

During 2020 PSPS entered into a longevity swap transaction with Pacific Life Re Limited. This arrangement provides long-term protection for PSPS against costs that could result from unexpected increases in life expectancy relating to the pensions that were in payment on 6 April 2019, excluding any future discretionary increases. As at 31 December 2021, the longevity swap covered £2.8bn (2020:£3.1bn) of current pensioner scheme liabilities, on an IAS 19 basis.

17.2 Assumptions

17.2.1 Demographic assumptions

Post-retirement mortality

The calculation of the defined benefit obligation for the Group's schemes requires assumptions to be set for both current mortality and the allowance for future mortality improvements. The table below sets out the mortality tables and mortality improvement model used for the Group's schemes, along with the associated life expectancies.

				Expectation of life from retirement at aged 60			
As at	Scheme	Mortality tables (with scaling factors applied to reflect experience)	Mortality improvements model[i]	Male currently aged 60	Male currently aged 40	Female currently aged 60	Female currently aged 40
31 December 2021	**PSPS**	**S3PMA/S3PFA for males/females**	**CMI 2019**	**26.9**	**29.1**	**28.4**	**30.3**
	SASPS	**S3PMA/S3PFA for males/females**	**CMI 2019**	**27.9**	**30.0**	**30.1**	**31.9**
	M&GGPS	**S3PMA/S3PFA Light for males/females**	**CMI 2019**	**29.1**	**31.1**	**30.6**	**32.3**
31 December 2020	PSPS	S2PMA/S2PFA for males/females	CMI 2018	27.3	29.5	28.6	30.6
	SASPS	S1PMA/S1PFA for males/females	CMI 2018	27.1	29.4	30.4	32.3
	M&GGPS	S2PMA/S2PFA for males/females	CMI 2018	28.8	30.8	30.3	32.2

i The mortality assumptions are adjusted to make allowance for future improvements in longevity. As at 31 December 2021, this allowance was based on the CMI 2019 mortality improvements model with improvement factors of 1.75% for males (S_k = 7.50 and A=0.45%) and 1.50% for females (S_k = 8.00 and A=0.45%) (2020: this allowance was based on the CMI 2018 model with improvement factors of 1.75% for males (S_k = 7.75) and 1.50% for females (S_k = 8.25)).

17.2.2 Economic assumptions

The actuarial assumptions used in determining defined benefit obligations and the net periodic benefit costs for each of the Group's defined benefit pension schemes are as follows:

	2021			2020		
For the year ended 31 December	**PSPS**	**SASPS**	**M&GGPS**	PSPS	SASPS	M&GGPS
Discount rate[i]	**1.8%**	**1.8%**	**1.8%**	1.2%	1.3%	1.3%
Salary inflation[ii]	**3.6%**	**3.4%**	**3.3%**	3.0%	2.9%	2.9%
Retail Prices Index (RPI)	**3.6%**	**3.4%**	**3.3%**	3.0%	2.9%	2.9%
Consumer Prices Index (CPI)	**3.1%**	**3.1%**	**2.9%**	2.2%	2.1%	2.1%
Rate of increase of pensions in payment for inflation[iii]						
CPI (maximum 5%)[iv]	**3.1%**	**n/a**	**n/a**	2.5%	n/a	n/a
CPI (maximum 2.5%)[iv]	**2.5%**	**n/a**	**n/a**	2.5%	n/a	n/a
Discretionary[iv]	**2.5%**	**n/a**	**n/a**	2.5%	n/a	n/a
RPI (maximum 5%)	**n/a**	**3.4%**	**3.3%**	n/a	2.9%	2.9%
RPI (maximum 2.5%)	**n/a**	**2.5%**	**2.5%**	n/a	2.5%	2.5%

i The discount rate has been determined by reference to an "AA" corporate bond index, adjusted where applicable to allow for the difference in duration between the index and the pension liabilities.

ii Due to the scheme changes during 2019, the pensionable salary used to determine scheme benefits was frozen at the 30 September 2019 levels for most members.

iii The long-term margin between RPI and CPI has been lowered for the end December 2021 valuation to reflect expected changes in RPI from 2030 as a result of the UK Statistics Authority planning to align RPI with the Consumer Prices Index including owner occupiers' housing costs (CPHI). The rate of inflation used reflects the long-term assumption for UK RPI or CPI, depending on the particular tranche of scheme benefits, with caps and floors applied in accordance with the scheme rules.

iv Certain tranches of scheme benefits within PSPS have statutory pension increases in line with the higher of CPI up to a maximum level, or a discretionary level determined by the employer. Other tranches are not guaranteed and determined by the employer on a discretionary basis.

17 Defined benefit pension schemes continued

17.2.3 Other assumptions

In October 2018, the High Court ruled that pension schemes are required to equalise benefits for the effect of guaranteed minimum pensions (GMPs). GMPs are a minimum benefit that schemes that were contracted-out on a salary-related basis between 1978 and 1997 are required to provide. There was a further Court ruling in November 2020 which required benefits in respect of past transfers out of the schemes to also be equalised. In light of these Court rulings, at 31 December 2021 and 31 December 2020, the Group has recognised an estimated allowance for GMP equalisation within the IAS 19 valuation for all the UK schemes – comprising £43m for PSPS, £20m for SASPS, and £6m for M&GGPS as at 31 December 2021 (2020: £48m for PSPS, £21m for SASPS and £6m for M&GGPS).

17.2.4 Sensitivity of the pension scheme liabilities to key variables

The sensitivity information below is based on the core scheme liabilities and assumptions at the balance sheet date. The sensitivities are calculated based on a change in one assumption with all other assumptions being held constant. As such, interdependencies between the assumptions are excluded. The impact of the rate of inflation assumption sensitivity includes the impact of inflation on the rate of increase in salaries, where applicable, and on the rate of increase of pensions in payment and in deferment.

The sensitivities of the underlying pension scheme liabilities as shown below do not directly equate to the impact on the Group's comprehensive income due to the effect of the restriction on surplus for PSPS and the allocation of a share of the interest in the financial position of PSPS and SASPS to the With-Profits Fund as described above. In addition, the sensitivities shown do not include the impact on assets, which for all schemes would significantly offset the impact of the discount rate and inflation sensitivities on the IAS 19 surplus or deficit. For the PSPS scheme, the mortality rate sensitivity impact would also be partially mitigated by the longevity swap asset held.

		2021			
		Increase/(decrease) in the present value of the scheme's defined benefit obligation			
As at 31 December	Sensitivity of the change in assumptions	**PSPS £m**	**SASPS £m**	**M&GGPS £m**	**Total £m**
Base position	n/a	**6,460**	**1,043**	**581**	**8,084**
Discount rate	Decrease by 0.2%	**212**	**49**	**28**	**289**
	Increase by 0.2%	**(201)**	**(46)**	**(27)**	**(274)**
Rate of inflation with consequent reduction in salary increases (where applicable)	Decrease by 0.2%	**(78)**	**(33)**	**(17)**	**(128)**
Mortality rate	Increase in life expectancy by 1 year	**210**	**39**	**22**	**271**

		2020			
		Increase/(decrease) in the present value of the scheme's defined benefit obligation			
As at 31 December	Sensitivity of the change in assumptions	PSPS £m	SASPS £m	M&GGPS £m	Total £m
Base position	n/a	7,109	1,073	605	8,787
Discount rate	Decrease by 0.2%	246	53	32	331
	Increase by 0.2%	(233)	(49)	(30)	(312)
Rate of inflation with consequent reduction in salary increases (where applicable)	Decrease by 0.2%	(38)	(37)	(20)	(95)
Mortality rate	Increase in life expectancy by 1 year	253	40	29	322

17 Defined benefit pension schemes continued

17.3 Plan assets of the schemes

	2021				2020			
As at 31 December	**PSPS £m**	**Other £m**	**Total £m**	**%**	PSPS £m	Other £m	Total £m	%
Equities:								
UK	**48**	**7**	**55**	**1**	19	10	29	–
Overseas	**28**	**39**	**67**	**1**	14	65	79	1
Bonds:[i]								
Government	**4,538**	**969**	**5,507**	**60**	4,855	840	5,695	60
Corporate	**1,909**	**480**	**2,389**	**26**	2,023	494	2,517	26
Asset-backed securities	**392**	**25**	**417**	**4**	283	26	309	3
Derivatives[ii]	**43**	**29**	**72**	**1**	216	3	219	2
Properties	**215**	**115**	**330**	**4**	160	116	276	3
Other assets	**221**	**83**	**304**	**3**	314	155	469	5
Total value of assets[iii]	**7,394**	**1,747**	**9,141**	**100**	7,884	1,709	9,593	100

i As at 31 December 2021, 91% of the bonds were investment grade (2020: 90%).

ii Included within derivatives is a £11m liability in respect of the longevity swap transaction with Pacific Life Re Limited (2020: £15m), valued at fair value as per IAS19 and based on the principles of IFRS13.

iii As at 31 December 2021, 92% of the total value of the scheme assets were derived from quoted prices in an active market (2020: 94%), while the value of the remaining assets is derived from the use of various observable and unobservable inputs. None of the scheme assets included property occupied by the Group. The IAS 19 basis plan assets as at 31 December 2021 of £8,394m (2020: £9,392m) is different from the economic basis plan assets of £9,141m (2020: £9,593m) as shown above due to the exclusion of investment in Group insurance policies by M&GGPS as described in 17.1.

17 Defined benefit pension schemes continued

17.4 Reconciliation in movement of schemes' surplus/deficit

	Economic basis					
	Fair value of plan assets £m	Present value of benefit obligation £m	Effect of asset ceiling £m	Net economic pension surplus/(deficit) £m	Other adjustments £m	Net pension surplus/(deficit) £m
Net defined benefit pension asset/(liability) at 1 January 2021	9,593	(8,787)	(717)	89	(201)	(112)
Total expense recognised in income statement:						
Current service cost	–	(24)	–	(24)	–	(24)
Past service costs	–	–	–	–	–	–
Net interest income/(expense)	117	(108)	(9)	–	(3)	(3)
Administration expenses	(9)	–	–	(9)	–	(9)
Total amount recognised in consolidated income statement[i]	108	(132)	(9)	(33)	(3)	(36)
Remeasurements:						
Actuarial gains and losses:						
Return on the scheme assets less amount included in interest income	(224)	–	–	(224)	13	(211)
Gains on changes in demographic assumptions	–	129	–	129	–	129
Gains on changes in financial assumptions	–	366	–	366	–	366
Experience losses on scheme liabilities	–	(43)	–	(43)	–	(43)
Unrecognisable surplus	–	–	(170)	(170)	–	(170)
Remeasurement gains and (losses)[ii]	(224)	452	(170)	58	13	71
Benefit payments	(383)	383	–	–	–	–
Employers' contributions	47	–	–	47	–	47
Transfer in to investment in Group insurance policies	–	–	–	–	(16)	(16)
Net defined benefit pension asset/(liability) at 31 December 2021	9,141	(8,084)	(896)	161	(207)	(46)

i An expense of £12m is included in the total amount recognised in the income statement for the year ended 31 December 2021 relating to the With-Profits Fund (2020: £22m).

ii Included in the share of remeasurement gains and losses for the year ended 31 December 2021 are gains relating to shareholders totalling £68m (2020: losses of £101m) which are recognised in other comprehensive income. The amounts attributable to the With-Profits Fund for the year ended 31 December 2021 amount to gains of £3m (2020: losses of £16m) are recognised in other comprehensive income and transferred to unallocated surplus of the With-Profits Fund.

17 Defined benefit pension schemes continued

	Economic basis					
	Fair value of plan assets £m	Present value of benefit obligation £m	Effect of asset ceiling £m	Net economic pension surplus/ (deficit) £m	Other adjustments £m	Net pension surplus/ (deficit) £m
Net defined benefit pension asset/(liability) at 1 January 2020	8,977	(7,904)	(887)	186	(137)	49
Total expense recognised in income statement:						
Current service cost	–	(22)	–	(22)	–	(22)
Past service costs	–	(11)	–	(11)	–	(11)
Net interest income/(expense)	182	(160)	(18)	4	(3)	1
Administration expenses	(13)	–	–	(13)	–	(13)
Total amount recognised in consolidated income statement[i]	169	(193)	(18)	(42)	(3)	(45)
Remeasurements:						
Actuarial gains and losses:						
Return on the scheme assets less amount included in interest income	804	–	–	804	(15)	789
Losses on changes in demographic assumptions	–	(44)	–	(44)	–	(44)
Losses on changes in financial assumptions	–	(1,229)	–	(1,229)	–	(1,229)
Experience gains on scheme liabilities	–	179	–	179	–	179
Unrecognisable surplus	–	–	188	188	–	188
Remeasurement gains and (losses)[ii]	804	(1,094)	188	(102)	(15)	(117)
Benefit payments	(404)	404	–	–	–	–
Employers' contributions	47	–	–	47	–	47
Transfer in to investment in Group insurance policies	–	–	–	–	(46)	(46)
Net defined benefit pension asset/(liability) at 31 December 2020	9,593	(8,787)	(717)	89	(201)	(112)

17.5 Maturity analysis of benefit obligations

The following table provides an expected maturity analysis of the undiscounted defined benefit obligations:

	All schemes						
	1 year or less £m	After 1 year to 5 years £m	After 5 years to 10 years £m	After 10 years to 15 years £m	After 15 years to 20 years £m	Over 20 years £m	Total £m
As at 31 December 2021	**266**	**1,123**	**1,534**	**1,525**	**1,466**	**5,510**	**11,424**
As at 31 December 2020	269	1,122	1,532	1,508	1,438	5,305	11,174

The weighted average duration of each scheme's defined benefit obligations (in years) are as follows:

	PSPS	SASPS	M&GGPS
As at 31 December 2021	**16**	**23**	**25**
As at 31 December 2020	17	24	26

18 Loans

The amounts included in the consolidated statement of financial position in relation to loan assets are analysed as follows:

As at 31 December	2021 £m	2020 £m
Mortgage loans	**4,219**	4,328
Policy loans	**2**	2
Other loans	**1,588**	1,701
Total loans	**5,809**	6,031

Mortgage loans include a securitisation vehicle that the Group consolidates which holds a portfolio of buy-to-let mortgages carried at fair value through profit or loss. The Group's interest is held by the With-Profits Fund. The fair value of the loans as at 31 December 2021 was £1,245m (2020: £1,366m). The vehicle financed the acquisition of the loan portfolio through the issue of debt instruments, largely to external parties, which are securitised upon the loans acquired.

As at 31 December 2021, 79% of the £2,180m (2020: 80% of £2,219m) of mortgage loans held by the shareholder-backed business related to lifetime (equity release) mortgage business which had an average loan to property value of 36% (2020: 36%). The equity release mortgages are carried at fair value through profit or loss. Sensitivities in relation to the valuation of the equity release mortgages are provided in Note 32.9.

Other loans mainly comprise syndicated and commercial bridge loans.

19 Classification of financial instruments

19.1 Financial assets

		2021			
		Fair value through profit or loss			
As at 31 December	Note	**Designated £m**	**Held for trading £m**	**Loans and receivables £m**	Total £m
Loans[i]		**3,275**	**–**	**2,534**	**5,809**
Derivative assets	32	**–**	**3,373**	**–**	**3,373**
Equity securities and pooled investment funds	32	**74,069**	**–**	**–**	**74,069**
Deposits	33	**–**	**–**	**17,633**	**17,633**
Debt securities	32	**81,059**	**–**	**–**	**81,059**
Accrued investment income and other debtors	20	**–**	**–**	**2,647**	**2,647**
Cash and cash equivalents	21	**–**	**–**	**6,908**	**6,908**
Total financial assets		**158,403**	**3,373**	**29,722**	**191,498**

i he carrying value of loans held at amortised cost are reported net of allowance for loan losses of £18m as at 31 December 2021 (2020: £50m).

Financial assets expected to be recovered after more than one year as at 31 December 2021 are £82,141m (2020: £86,531m).

		2020			
		Fair value through profit or loss			
As at 31 December	Note	Designated £m	Held for trading £m	Loans and receivables £m	Total £m
Loans		3,220	–	2,811	6,031
Derivative assets	32	–	5,705	–	5,705
Equity securities and pooled investment funds	32	68,419	–	–	68,419
Deposits	33	–	–	17,629	17,629
Debt securities	32	85,439	–	–	85,439
Accrued investment income and other debtors	20	–	–	3,023	3,023
Cash and cash equivalents	21	–	–	6,776	6,776
Total financial assets		157,078	5,705	30,239	193,022

19 Classification of financial instruments continued

19.2 Financial liabilities

As at 31 December	Note	2021			
		Fair value through profit or loss			
		Designated £m	Held for trading £m	Amortised cost £m	Total £m
Investment contract liabilities without discretionary participation features	26	**14,884**	**–**	**–**	**14,884**
Third party interest in consolidated funds	32	**12,636**	**–**	**–**	**12,636**
Subordinated liabilities and other borrowings	27	**1,159**	**–**	**7,771**	**8,930**
Derivative liabilities	32	**–**	**2,689**	**–**	**2,689**
Other financial liabilities[i]		**–**	**–**	**2,882**	**2,882**
Accruals, deferred income and other liabilities[ii]		**403**	**–**	**5,670**	**6,073**
Total financial liabilities		**29,082**	**2,689**	**16,323**	**48,094**

i Other financial liabilities relate to obligations under funding, securities lending, and sale and repurchase agreements.

ii Accruals, deferred income and other liabilities exclude items which do not meet the definition of a financial liability.

As at 31 December	Note	2020			
		Fair value through profit or loss			
		Designated £m	Held for trading £m	Amortised cost £m	Total £m
Investment contract liabilities without discretionary participation features	26	15,547	–	–	15,547
Third party interest in consolidated funds	32	13,265	–	–	13,265
Subordinated liabilities and other borrowings	27	1,301	–	6,966	8,267
Derivative liabilities	32	–	3,460	–	3,460
Other financial liabilities[i]		–	–	3,391	3,391
Accruals, deferred income and other liabilities[ii]		409	–	3,714	4,123
Total financial liabilities		30,522	3,460	14,071	48,053

Financial liabilities held at fair value through profit or loss which are expected to be settled after more than one year as at 31 December 2021 were £10,771m (2020: £11,192m).

20 Accrued investment income and other debtors

As at 31 December	**2021 £m**	2020 £m
Interest receivable	**603**	659
Other accrued investment income	**786**	780
Total accrued investment income	**1,389**	1,439
Other debtors:		
Outstanding sales of investment securities	**103**	132
Investment management fee debtors	**168**	163
Property related debtors	**190**	175
Cancellation of units awaiting settlement	**35**	31
Other	**762**	1,083
Total accrued investment income and other debtors	**2,647**	3,023
Analysed as:		
Expected to be settled within one year	**2,344**	2,738
Expected to be settled after one year	**303**	285
Total accrued investment income and other debtors	**2,647**	3,023

21 Cash and cash equivalents

As at 31 December	2021 £m	2020 £m
Cash	**4,739**	4,646
Cash equivalents	**2,169**	2,130
Total cash and cash equivalents	**6,908**	6,776

Cash equivalents consist solely of money market fund investments with a maturity of less than 90 days at acquisition.

22 Issued share capital and share premium

	2021		2020	
As at 31 December	Number of ordinary shares	Share capital £m	Number of ordinary shares	Share capital £m
Issued shares of 5p fully paid	**2,599,906,866**	**130**	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 2021 was £370m (2020: £370m).

23 Shares held by employee benefit trusts and other treasury shares

The Group buys and sells its own shares either in relation to its employee share schemes or via transactions undertaken by authorised investment funds that the Group is deemed to control. The cost of own shares as at 31 December 2021 of £94m (2020: £118m) is deducted from equity.

23.1 Shares held by employee benefit trusts

The M&G Employee Share Trust ("the Trust") was created on 20 September 2019 to facilitate the procurement, holding and distribution of M&G plc shares under the various employee incentive schemes in operation. The Trust is funded via a loan from M&G plc. In addition, there is a separate trust that holds shares in respect of SIP schemes.

The movement in the M&G plc shares held in employee benefit trusts are detailed below:

	2021 Number of shares	2020 Number of shares
At 1 January	**68,182,585**	12,839,060
Shares acquired during the year	**171,417**	62,866,551
Shares awarded during the year	**(14,362,746)**	(7,523,026)
At 31 December	**53,991,256**	68,182,585

The Trust holds 51,180,656 (2020: 64,645,185) shares whilst a further 2,810,600 (2020: 3,537,400) shares are held by the trustee of the SIP scheme at 31 December 2021.

The cost of shares held in the employee benefit trusts of £93m as at 31 December 2021 (2020: £117m) is deducted from equity.

23.2 Other treasury shares

The Group has consolidated a number of authorised investment funds where it is deemed to control these funds under IFRS, and some of these funds hold shares in M&G plc.

The total number of shares held by these funds at 31 December 2021 was 562,297 (2020: 598,106) with a carrying value as at 31 December 2021 of £1m (2020: £1m).

All share transactions were made on an exchange. Other than transactions by consolidated authorised investment funds, the Group did not purchase, sell or redeem any M&G plc listed securities during 2021.

24 Retained earnings

	Note	2021 £m	2020 £m
At 1 January		**16,853**	16,342
Recognised in comprehensive income:			
Profit for the year attributable to equity holders		**83**	1,138
Other comprehensive income/(expense) on items that will not be reclassified to profit or loss		**50**	(81)
Total items recognised in comprehensive income		**133**	1,057
Recognised directly in equity:			
Transactions with equity holders:			
Dividends	11	**(466)**	(562)
Shares distributed by employee trusts		**(24)**	(14)
Vested employee share-based payments	25	**33**	17
Tax effect of items recognised directly in equity		**21**	13
Total items recognised directly in equity		**(436)**	(546)
Net (decrease)/increase in equity		**(303)**	511
At 31 December		**16,550**	16,853

25 Other reserves

	Equity-settled share-based payment reserve £m	**Merger reserve £m**	**Foreign currency translation reserve £m**	**Total other reserves £m**
As at 1 January 2021	**74**	**(11,732)**	**–**	**(11,658)**
Exchange movements arising on foreign operations	**–**	**–**	**(13)**	**(13)**
Total items recognised in comprehensive income	**–**	**–**	**(13)**	**(13)**
Vested employee share-based payments	**(33)**	**–**	**–**	**(33)**
Expense recognised in respect of share-based payments	**40**	**–**	**–**	**40**
Tax effect of items recognised directly in equity	**4**	**–**	**–**	**4**
Net increase/(decrease) in equity	**11**	**–**	**(13)**	**(2)**
As at 31 December 2021	**85**	**(11,732)**	**(13)**	**(11,660)**

	Equity-settled share-based payment reserve £m	Merger reserve £m	Foreign currency translation reserve £m	Total other reserves £m
As at 1 January 2020	45	(11,732)	(3)	(11,690)
Exchange movements arising on foreign operations	–	–	3	3
Total items recognised in comprehensive income	–	–	3	3
Vested employee share-based payments	(17)	–	–	(17)
Expense recognised in respect of share-based payments	51	–	–	51
Tax effect of items recognised directly in equity	(5)	–	–	(5)
Net increase in equity	29	–	3	32
As at 31 December 2020	74	(11,732)	–	(11,658)

The merger reserve arises from the application of merger accounting principles to the acquisition of entities under common control. It represents the difference between the aggregate capital reserves and the value of the entities acquired. On disposal of the relevant entity, the related merger reserve is released directly to retained earnings.

26 Policyholder liabilities and unallocated surplus

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

Note 2.3 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:

26.1.1 With-profits business

The With-Profits Fund mainly contains with-profits contracts but also contains some non-profit business (annuities, unit-linked, and term assurances). The liabilities of the With-Profits Fund are accounted for on a realistic basis in accordance with the requirements of FRS 27 Life Assurance. The basis is consistent with the rules for the determination of reserves on the realistic basis under the Solvency I capital regime. Though no longer in force for regulatory purposes, these rules continue to be applied to determine with-profits contract liabilities in accordance with IFRS 4 Insurance Contracts. In aggregate, the regime has the effect of placing a market-consistent value on the liabilities of with-profits contracts, which reflects the amounts expected to be paid based on the current value of investments held by the With-Profits Fund and current circumstances. Non-profit business written in the With-Profits Fund is valued consistently with equivalent business written in the shareholder-backed funds, and profit on this business which has accrued to policyholders is included as part of the with-profits contract liability. No policyholder liability is held in respect of future enhancements to with-profits liabilities from non-profit business.

The with-profits contracts are a combination of insurance and investment contracts with 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 SME's across the business;
- Management actions under which the fund is managed in different scenarios;
- Maintenance and, for some classes of business, termination expense assumptions are expressed as per policy amounts. They are set based on forecast expense levels, including an allowance for ongoing investment management expenses, and are allocated between entities and product groups in accordance with the Group's internal cost allocation model;
- Expense inflation assumptions are set consistent with the economic basis and based on the inflation swap spot curve;
- The contract liabilities for with-profits business also require assumptions for mortality. These are set based on the results of recent experience analysis. However, mortality experience over 2020 was significantly higher than previous years' as a result of the COVID-19 pandemic. Therefore, no weight has been given to 2020 experience in calibrating mortality assumptions.

Unallocated surplus

The unallocated surplus of the With-Profits Fund represents the excess of the fund's assets over policyholder liabilities 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.

26 Policyholder liabilities and unallocated surplus 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 customers;
- 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.

26 Policyholder liabilities and unallocated surplus continued

For the year ended 31 December	2021 £m	2020 £m
Net income of the WPSF fund:		
Investment return	**11,875**	5,719
Claims incurred	**(10,728)**	(9,430)
Movement in policyholder liabilities	**(1,321)**	(364)
Add back policyholder bonus for the year (as shown below)	**2,906**	2,258
Claims incurred and movement in policyholder liabilities (including change for provision for asset shares and excluding policyholder bonuses)	**(9,143)**	(7,536)
Earned premiums, net of reinsurance	**4,503**	5,494
Other income	**26**	9
Acquisition costs and other expenditure	**(2,436)**	(1,250)
Share of profits/(losses) from investment joint ventures	**76**	(64)
Tax charge	**(645)**	(297)
Net income of the fund before movement in unallocated surplus of the With-Profits Fund	**4,256**	2,075
Movement in unallocated surplus of the With-Profits Fund	**(1,052)**	433
Surplus for distribution for the year	**3,204**	2,508
Surplus for distribution for the year allocated as follows:		
Policyholders' bonus (as shown above)	**2,906**	2,258
Shareholders' transfers[i]	**298**	250
Surplus for distribution for the year	**3,204**	2,508

i Shareholder transfers for most business in the WPSF are one ninth of the cost of bonus declared to policyholders. During the year, 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 £226m for the year ended 31 December 2021, the value of which is included in the total Policyholders' bonus shown in the table above. Refer to Note 2.3 for further details.

26.1.2 Unit-linked business

For unit-linked contracts, the attaching liability reflects the unit value obligation and, in the case of contracts with significant insurance risk which are therefore classified as insurance contracts, a provision for expense and mortality risk. The latter component is determined by applying mortality assumptions on a basis that is appropriate for the policyholder profile.
To calculate the non-unit reserves for unit-linked insurance contracts, assumptions are set for maintenance expenses, the unit growth rate and the valuation interest rate. The valuation interest rate is derived from the yields of assets representative of the returns that will be earned on the assets backing these liabilities.

For those contracts where the level of insurance risk is insignificant, the assets and liabilities arising under the contracts are distinguished between those that relate to the financial instrument liability, and the deferred acquisition costs and deferred income that relate to investment management. Deferred acquisition costs and deferred income are recognised in line with the level of service provision.

Certain parts of the unit-linked business are reinsured externally by way of fund reinsurance. Where this is the case, the 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.

26.1.3 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.

As described in Note 2.2.1, in 2018, part of the annuity liability was reinsured externally to Rothesay Life and, as a result, some of the longevity risk in respect of the remaining annuity business was reinsured externally. The High Court sanctioned the Part VII transfer of the business covered by the reinsurance arrangement on 24 November 2021, with it completing on 15 December 2021, leading to the termination of the reinsurance arrangement on this date.

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

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

26 Policyholder liabilities and unallocated surplus continued

The mortality improvements observed in recent population data have been considered as part of the judgement exercised in setting the mortality basis for 2021. 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 for prudence. The current assumption is expressed in terms of CMI 2019, and is broadly neutral in comparison to 2020 where CMI 2018 was used. Future improvements in the assumptions will be a key focus in 2022 when alternative approaches in determining portfolio specific adjustments will be considered. The mortality improvement assumptions used are summarised in the table below:

Period ended	Model version	Long-term improvement rate[i]	Smoothing parameter (Sk)[ii]
31 December 2021	**CMI 2019**	**For males: 2.25% pa** **For females: 2.00% pa**	**For males: 7.50** **For females: 8.00**
31 December 2020	CMI 2018	For males: 2.25% pa For females: 2.00% pa	For males: 7.75 For females: 8.25

i As at 31 December 2021 and 31 December 2020, the long-term improvement rates shown reflected a 0.5% increase to all future improvement rates as a margin for prudence.

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

An increase in mortality rates was observed over 2020 due to the COVID-19 pandemic and continued in to 2021, with significant deaths over Q1. The experience fell to be more in-line with previous years in Q2, but increased once more in Q3, although not to the levels seen over 2020. Higher mortality experience may be expected to continue to some extent over the short-term, particularly in relation to the annuitant population which has a higher average age than the non-annuitant population. However, this remains uncertain and the longer-term implications for mortality rates amongst the annuitant population are unknown at this stage. For the purpose of calibrating current mortality and improvement rates, zero weight has been given to 2020 experience, in line with broader industry approach. This is an area that will continue to be monitored by the Group and it is expected that this will be revisited ahead of the year ending 31 December 2022.

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

The sensitivity of IFRS profit before tax to changes in assumed mortality rates is shown in Note 33.2.

Valuation interest rates
Valuation interest rates used to discount the liabilities are based on the yields as at the valuation date on the assets backing the policyholder liabilities. For fixed interest securities, the internal rate of return of the assets backing the liabilities is used. Investment properties are valued using the redemption yield. An adjustment is made to the yield on non risk-free fixed interest securities and property to reflect credit risk. The credit risk allowance comprises an amount for long-term best estimate defaults and downgrades, a provision for credit risk premium, and where appropriate an additional short-term allowance.

The credit risk allowance for the Group's shareholder-backed annuity business as at 31 December 2021 was 44bps per annum (2020: 46 bps) corresponding to a net of reinsurance reserve of £727m (2020: £862m). For the annuity business written in the With-Profits Fund, this amount was 40bps (2020: 43bps) corresponding to a net of reinsurance reserve of £312m (2020: £406m). This decrease is primarily as a result of a more optimistic outlook for the number of company defaults and downgrades than was anticipated last year due to the COVID-19 pandemic. The allowance for credit risk within the valuation interest rate is of particular importance when determining policyholder liabilities, and the sensitivity of IFRS profit after tax to changes in this assumption is shown in Note 33.2.

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. The sensitivity of IFRS profit after tax to changes in maintenance expense levels is shown in Note 33.2.

26.2 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 component of business. 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 will 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.

26 Policyholder liabilities and unallocated surplus continued

	With-profits sub-funds[i] £m	Shareholder-backed funds and subsidiaries Unit-linked liabilities £m	Annuity and other long-term business £m	Total £m	Reinsurance asset £m	Net total £m
As at 1 January 2020	136,814	20,994	30,443	188,251	(11,958)	176,293
Comprising:						
Insurance contract liabilities	42,717	5,396	30,367	78,480		
Investment contract liabilities with DPF	78,022	–	26	78,048		
Investment contract liabilities without DPF	3	15,598	50	15,651		
Unallocated surplus of the With-Profits Fund	16,072	–	–	16,072		
Net Flows:						
Premiums	5,500	1,632	161	7,293		
Surrenders	(5,730)	(2,214)	(81)	(8,025)		
Maturities/deaths	(4,114)	(603)	(2,077)	(6,794)		
Net flows	(4,344)	(1,185)	(1,997)	(7,526)		
Shareholders' transfers post-tax	(250)	–	–	(250)		
Switches	(81)	81	–	–		
Investment-related items and other movements[ii]	4,220	509	2,153	6,882		
Foreign exchange differences	28	56	–	84		
As at 31 December 2020/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**	**–**	**–**		
Changes in reserving basis	**(45)**	**–**	**–**	**(45)**		
Investment-related items and other movements[ii]	**9,005**	**1,173**	**3**	**10,181**		
Foreign exchange differences	**(80)**	**(56)**	**–**	**(136)**		
As at 31 December 2021	**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**		

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 Investment related items and other movements include the impact of assumption changes. For the shareholder-backed business, assumption changes, including credit downgrade/default provisioning and annuitant mortality, decreased policyholder liabilities by £347m for the year ended 31 December 2021 (2020: £238m decrease). For the With-Profits Fund, the impact of assumption changes for the year ended 31 December 2021 was a decrease in policyholder liabilities of £50m (2020: £339m decrease), which was offset by a corresponding increase in unallocated surplus of the With-Profits Fund.

iii Corporate transactions relates to the impact of the Part VII transfer of annuity business to Rothesay Life PLC which decreased annuity and other long-term business by £9,558m and reduced the reinsurance asset by £9,558m, and the acquisition of PPMSA which increased unit-linked liabilities by £598m. See Note 2 for further details.

26 Policyholder liabilities and unallocated surplus continued

Further analysis of the movement in the Group's insurance contract liabilities, reinsurance asset, investment contract liabilities and unallocated surplus of the With-Profits Fund is provided below. The movement in these items is predominantly allocated to the "benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance" line in the 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.

	Insurance contracts £m	Investment contracts[i] £m	Unallocated surplus of the With-Profits Fund £m	Reinsurers' Share[ii] £m
As at 1 January 2020	78,480	93,699	16,072	(11,958)
Income and expense included in the income statement	(1,884)	2,280	(433)	203
Other movements including amounts included in other comprehensive income[iii]	19	(865)	(11)	(4)
Foreign exchange translation differences	35	56	(7)	(2)
As at 31 December 2020/As at 1 January 2021	**76,650**	**95,170**	**15,621**	**(11,761)**
Additions arising on acquisitions[iv]	**–**	**598**	**–**	**–**
Income and expense included in the income statement[v]	**(13,356)**	**3,556**	**1,052**	**10,088**
Other movements including amounts included in other comprehensive income[iii]	**5**	**(1,640)**	**2**	**6**
Foreign exchange translation differences	**(76)**	**(57)**	**48**	**(2)**
As at 31 December 2021	**63,223**	**97,627**	**16,723**	**(1,669)**

i This comprises investment contracts with discretionary participation features of £82,743m as at 31 December 2021 (2020: £79,623m) and investment contracts without discretionary participation features of £14,884m as at 31 December 2021 (2020: £15,547m).

ii Includes reinsurers' share of claims outstanding of £143m as at 31 December 2021 (2020: £149m).

iii 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.

iv Additions arising on acquisitions relates to the acquisition of PPMSA which increased unit-linked liabilities by £598m. See Note 2 for further details.

v Income and expense included in the income statement includes the impact of the Part VII transfer of annuity business to Rothesay Life PLC. See Note 2.2.1 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.

	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)**

i Policyholder liabilities consist of insurance contract liabilities and investment contract liabilities.

26 Policyholder liabilities and unallocated surplus continued

For the year ended 31 December	2020 Policyholder liabilities[i] £m	2020 Unallocated surplus of the With-Profits Fund £m	2020 Reinsurance asset £m
Movement in policyholder liabilities and unallocated surplus of the With-Profits Fund included in consolidated income statement	(396)	433	–
Movement in reinsurance asset included in consolidated income statement	–	–	(203)
Benefits and claims paid	(12,278)	–	–
Benefits and claims attributable to external reinsurers	–	–	1,680
Benefits and claims and movement in unallocated surplus of the With-Profits Fund, net of reinsurance as shown in consolidated income statement	(12,674)	433	1,477

26.3 Duration of liabilities

The tables below show the expected timing of the cash flows which make up the policyholder liabilities. The expected timing of the cash flows will depend on the contract term and also expectations of assumptions such as future mortality and persistency, depending on the type of contract. For with-profits and unit-linked contracts, actual amounts payable will vary with future investment performance of the funds. The following tables show the carrying value of the policyholder liabilities and the expected timing of the cash flows, on a discounted basis:

	2021									
	With-profits business			**Annuity business (insurance contracts)**			**Other business and unit-linked**			**Total**
As at 31 December	**Insurance contracts**	**Investment contracts**	**Total**	**Non-profit annuities within With-Profits Fund**	**Shareholder-backed annuities**	**Total**	**Insurance contracts**	**Investment contracts**	**Total**	
Carrying value (£m)	**29,507**	**82,702**	**112,209**	**9,311**	**17,646**	**26,957**	**6,760**	**14,924**	**21,684**	**160,850**
Expected cash flow timing:										
0 to 5 years	**34%**	**36%**	**35%**	**36%**	**29%**	**32%**	**43%**	**33%**	**36%**	**35%**
5 to 10 years	**24%**	**25%**	**25%**	**26%**	**24%**	**25%**	**25%**	**25%**	**25%**	**25%**
10 to 15 years	**17%**	**16%**	**17%**	**17%**	**19%**	**18%**	**16%**	**18%**	**17%**	**17%**
15 to 20 years	**11%**	**10%**	**10%**	**10%**	**14%**	**12%**	**8%**	**11%**	**10%**	**11%**
20 to 25 years	**7%**	**6%**	**6%**	**5%**	**8%**	**7%**	**4%**	**7%**	**6%**	**6%**
over 25 years	**7%**	**7%**	**7%**	**6%**	**6%**	**6%**	**4%**	**6%**	**6%**	**6%**

	2020									
	With-profits business			Annuity business (insurance contracts)			Other business and unit-linked			Total
As at 31 December	Insurance contracts	Investment contracts	Total	Non-profit annuities within With-Profits Fund	Shareholder-backed annuities	Total	Insurance contracts	Investment contracts	Total	
Carrying value (£m)	30,268	79,581	109,849	10,438	29,369	39,807	6,575	15,589	22,164	171,820
Expected cash flow timing:										
0 to 5 years	34%	35%	35%	34%	27%	30%	43%	32%	36%	34%
5 to 10 years	23%	26%	25%	26%	24%	24%	25%	24%	24%	25%
10 to 15 years	17%	17%	17%	17%	19%	18%	16%	18%	17%	17%
15 to 20 years	11%	10%	10%	10%	14%	13%	8%	12%	11%	11%
20 to 25 years	7%	6%	6%	6%	9%	8%	4%	7%	6%	6%
over 25 years	8%	6%	7%	7%	7%	7%	4%	7%	6%	7%

The cash flow projections of expected liability payments used in the expected cash flow timing table above are from the value of in-force business and exclude the value of future new business, including future vesting of pension contracts.

Liability payments do not reflect the pattern of bonuses and shareholder transfers in respect of the with-profits business.

The amounts shown in the table exclude the unallocated surplus of the With-Profits Fund, as its allocation has not yet been defined.

27 Subordinated liabilities and other borrowings

As at 31 December	2021 £m	2020 £m
Subordinated liabilities	**3,706**	3,729
Operational borrowings	**107**	157
Borrowings attributable to the With-Profits Fund	**5,117**	4,381
Total subordinated liabilities and other borrowings	**8,930**	8,267

27.1 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.

	2021		2020	
As at 31 December	Principal amount	Carrying value £m	Principal amount	Carrying value £m
5.625% sterling fixed rate due 20 October 2051	**£750m**	**848**	£750m	856
6.25% sterling fixed rate due 20 October 2068	**£500m**	**606**	£500m	608
6.50% US dollar fixed rate due 20 October 2048	**$500m**	**423**	$500m	425
6.34% sterling fixed rate due 19 December 2063	**£700m**	**849**	£700m	853
5.56% sterling fixed rate due 20 July 2055	**£600m**	**676**	£600m	680
3.875% sterling fixed rate due 20 July 2049	**£300m**	**304**	£300m	307
Total subordinated liabilities		**3,706**		3,729

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

A description of the key features of each of the Group's subordinated notes as at 31 December 2021 is as follows:

	5.625% sterling fixed rate	6.25% sterling fixed rate	6.50% US dollar fixed rate	6.34% sterling fixed rate	5.56% sterling fixed rate	3.875% sterling fixed rate
Principal amount	£750m	£500m	$500m	£700m	£600m	£300m
Issue date[i]	1 October 2018	1 October 2018	1 October 2018	16 December 2013 (amended 10 June 2019)	9 June 2015 (amended 10 June 2019)	8 July 2019
Maturity date	20 October 2051	20 October 2068	20 October 2048	19 December 2063	20 July 2055	20 July 2049
Callable at par at the option of the Company from	20 October 2031 (and each semi-annual interest payment date thereafter)	20 October 2048 (and each semi-annual interest payment date thereafter)	20 October 2028 (and each semi-annual interest payment date thereafter)	19 December 2043 (and each semi-annual interest payment date thereafter)	20 July 2035 (and each semi-annual interest payment date thereafter)	20 July 2024, 20 July 2029 (and each semi-annual interest payment date thereafter)
Solvency II own funds 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 2021, the principal amount of all subordinated liabilities is expected to be settled after more than 12 months and accrued interest of £42m (2020: £42m) is expected to be settled within 12 months.

27 Subordinated liabilities and other borrowings continued

27.1.1 Movement in subordinated liabilities

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

	2021 £m	2020 £m
At 1 January	**3,729**	3,767
Amortisation	**(27)**	(23)
Foreign exchange movements	**4**	(15)
At 31 December	**3,706**	3,729

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

27.2 Other borrowings

27.2.1 Operational borrowings attributable to shareholder-financed operations

Other borrowings of £107m (2020: £157m) includes amounts for which repayment to the lender is contingent upon future surplus emerging from certain contracts specified under the arrangement. The lender does not have recourse to any other assets of the Group and the liability is not payable to the degree of shortfall.

In March 2019, the Group entered into revolving credit facilities of £1.5bn with several banks and financial institutions, and these are due to mature in 2024. As at 31 December 2021, these remain undrawn.

27.2.2 Other borrowings attributable to the With-Profits Fund

As at 31 December	2021 £m	2020 £m
Non-recourse borrowings of consolidated investment funds[i]	**5,083**	4,284
Bank loans and overdrafts	**34**	26
Other borrowings[ii]	**–**	71
Total	**5,117**	4,381

i In all instances, the holders of the debt instruments issued by these subsidiaries and funds do not have recourse beyond the assets of these subsidiaries and funds. As at 31 December 2021, the non-recourse borrowings of consolidated investment funds includes £1,245m (2020: £1,301m) of debt instruments issued by a consolidated securitisation vehicle which are backed by a portfolio of mortgage loans (see Note 18 for further details). These debt instruments are carried at fair value through profit or loss, consistent with the underlying mortgage portfolio.

ii For the year-ended 31 December 2021, other borrowings which relate to obligations under finance leases have been reallocated to lease liabilities on the Consolidated statement of financial position.

27.3 Maturity analysis

The following table sets out the remaining contractual maturity analysis of the Group's other borrowings as recognised in the consolidated statement of financial position:

	Operational borrowings (£m)							
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	No Stated Maturity	Total
As at 31 December 2021[i]	**5**	**5**	**–**	**–**	**–**	**–**	**97**	**107**
As at 31 December 2020	4	6	–	–	17	6	124	157

	Borrowings attributable to the With-Profits Fund (£m)							
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	No Stated Maturity	Total
As at 31 December 2021	**593**	**616**	**559**	**373**	**333**	**2,643**	**–**	**5,117**
As at 31 December 2020	425	708	105	518	202	2,423	–	4,381

i For the year-ended 31 December 2021, other borrowings which relate to obligations under finance leases have been reallocated to lease liabilities on the Consolidated statement of financial position.

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28 Lease liabilities

The Group leases various land and buildings to utilise as office space. Information about leases for which the Group is a lessee is presented below.

As at 31 December	2021 £m	2020 £m
At 1 January	**354**	360
Transfers[i]	**92**	–
Additions	**13**	18
Disposals	**(23)**	(14)
Interest expense	**12**	14
Lease repayments	**(35)**	(24)
At 31 December	**413**	354

i Transfers in relates to £88m of leases previously reported within Subordinated liabilities and other borrowings on the Consolidated statement of financial position, and £4m following the acquisition of PPMSA.

As at 31 December	2021 £m	2020 £m
Expected to be settled within one year	**25**	22
Expected to be settled after one year	**388**	332
Total lease liabilities	**413**	354

As at 31 December 2021, £34m (2020: £34m) of the lease liabilities are attributable to the With-Profits Fund.

The table below presents a maturity analysis of lease payments showing the undiscounted lease payments to be paid on an annual basis on these leases:

As at 31 December	2021 £m	2020 £m
Future minimum lease payments falling due in:		
Less than 1 year	**34**	29
1 to 5 years	**122**	111
Over 5 years	**331**	277

Some of the leases of office buildings contain lease break options exercisable by the Group. The Group assesses at the point of lease commencement whether it is reasonably certain to exercise the option. This assertion is revisited if there is a material change in circumstances.

The undiscounted value of lease payments beyond the break period which are not recognised in lease liabilities as at 31 December 2021 is £1m (2020: £61m).

The Group entered into a lease agreement in December 2020 for 20 years on an office building due to complete in 2022, which will also be the lease commencement date. The undiscounted value of future lease payments in relation to this lease which have not been recognised in lease liabilities as at 31 December 2021 are £29m (2020: £29m).

29 Provisions

As at 31 December	2021 £m	2020 £m
Regulatory	**1**	50
Staff benefits	**83**	103
Restructuring	**37**	66
Other	**17**	16
Total provisions	**138**	235

For the year ended 31 December	2021 £m	2020 £m
At 1 January	**235**	326
Charged to consolidated income statement:		
Additions during the year	**24**	107
Unused amounts released	**(38)**	(26)
Used during the year	**(83)**	(172)
At 31 December	**138**	235

Regulatory provisions in relation to annuity sales practices

PAC had agreed with the Financial Conduct Authority (FCA) to review annuities sold without advice after 1 July 2008 to its contract-based defined contribution pension customers, and this review is now complete. In addition, PAC had been conducting a review of other similar but separate groups of annuities sold after 1 July 2008 which were outside the scope of the original review. The review was examining whether customers were given sufficient information about their potential eligibility to purchase an enhanced annuity, either from PAC or another pension provider. Significant progress has been made on this redress exercise since 31 December 2020, and there are now only a small number of potential remaining cases from the total population. At 31 December 2020 a provision of £49m was held, of which £14m has been utilised during the year. Given the minimal number of remaining cases, the residual provision of £35m has been released in the year.

Staff benefits

Staff benefits primarily relates to performance-related bonuses expected to be paid to staff over the next three years.

Restructuring

Included in restructuring provisions is £36m as at 31 December 2021 (2020: £57m) related to change in control costs arising from the Demerger in 2019, which were expected to be incurred within four years of the separation from Prudential plc. The remaining £1m (2020: £9m) restructuring provisions are in relation to redundancy costs.

30 Accruals, deferred income and other liabilities

As at 31 December	2021 £m	2020 £m
Outstanding purchases of investment securities	**3,836**	2,169
Accruals and deferred income	**1,469**	1,317
Deferred consideration	**403**	411
Deposits received from reinsurers	**299**	344
Creditors arising from insurance operations	**156**	186
Interest payable	**60**	69
Creation of units awaiting settlement	**52**	43
Property related creditors	**15**	16
Other	**674**	736
Total accruals, deferred income and other liabilities	**6,964**	5,291
Analysed as:		
Expected to be settled within one year	**6,117**	4,243
Expected to be settled after one year	**847**	1,048
Total accruals, deferred income and other liabilities	**6,964**	5,291

31 Structured entities

Structured entities are those that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. The Group invests in structured entities such as:

- Pooled investment vehicles, including OEICs, unit trusts, SICAVs and limited partnerships.
- Debt securitisation vehicles, including collateralised debt obligations, mortgage-backed securities and other similar asset-backed securities.

Structured entities which the Group is deemed to control are consolidated in the consolidated financial statements. As at 31 December 2021 and 31 December 2020, the Group has not provided, and has no intention to provide, non-contractual financial or other support to consolidated or unconsolidated structured entities that could expose the Group to a loss.

31.1 Investments in unconsolidated structured entities

The table below shows aggregate carrying amounts of the investments in unconsolidated structured entities reported in the consolidated statement of financial position:

As at 31 December	**2021 £m**	2020 £m
Statement of financial position line item:		
Equity securities and pooled investment funds	**12,282**	11,549
Debt securities	**2,338**	3,180
Total	**14,620**	14,729

The Group generates returns and retains the ownership risks in these investments commensurate to its participation and does not have any further exposure to the residual risks or losses of the investments or the vehicles in which it holds investments. Further details on risks associated with financial assets and how they are managed are provided in Note 33.

Included in equity securities and pooled investment funds as at 31 December 2021 were £4,610m (2020: £4,934m) of investments in structured entities managed by the Group. Investment management fees for the year ended 31 December 2021 of £444m (2020: £475m) were recognised from managing these entities.

The maximum exposure to loss for unconsolidated structured entities in which the Group holds an investment is the carrying value of the Group's investment and the loss of future fees.

The Group also has interests in structured entities managed by the Group in which it holds no investment through the collection of investment management fees. The maximum exposure to loss for these interests is loss of future fees.

Investment management fees recognised for the year ended 31 December 2021 from managing these entities were £260m (2020: £251m).

32 Fair value methodology

32.1 Determination of fair value hierarchy

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

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

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

Level 2 – inputs other than quoted prices included within level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices)
Level 2 principally includes corporate bonds and other national and non-national government debt securities which are valued using observable inputs, together with over-the-counter derivatives such as forward exchange contracts and non-quoted investment funds valued with observable inputs. It also includes investment contract liabilities without DPF that are valued using observable inputs.

32 Fair value methodology continued

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.

32.2 Valuation approach for level 2 assets and liabilities

A significant proportion of the Group's level 2 assets are corporate bonds, structured securities and other national and non-national government debt securities. These assets, in line with market practice, are generally valued using independent pricing services or quotes from third-party brokers. These valuations are subject to a number of monitoring controls, such as monthly price variances, stale price reviews and variance analysis on prices achieved on subsequent trades.

Pricing services, where available, are used to obtain third-party broker quotes. When prices are not available from pricing services, quotes are sourced directly from brokers. The Group seeks to obtain a number of quotes from different brokers so as to obtain the most comprehensive information available on their executability. Where quotes are sourced directly from brokers, the price used in the valuation is normally selected from one of the quotes based on a number of factors, including the timeliness and regularity of the quotes and the accuracy of the quotes considering the spreads provided. The selected quote is the one which best represents an executable quote for the security at the measurement date.

32.3 Level 3 assets and liabilities

32.3.1 Valuation approach for level 3

Investments valued using valuation techniques include financial investments which by nature do not have an externally quoted price based on regular trades, and financial investments for which markets are no longer active as a result of market conditions e.g. market illiquidity. The valuation techniques used include comparison to recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option-adjusted spread models and, if applicable, enterprise valuation. These techniques may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these instruments. When determining the inputs into the valuation techniques used priority is given to publicly available prices from independent sources when available, but overall the source of pricing is chosen with the objective of arriving at a fair value measurement that reflects the price at which an orderly transaction would take place between market participants on the measurement date.

Where certain debt securities are valued using broker quotes, adjustments may be required in limited circumstances. This is generally where it is determined that the third-party valuations obtained do not reflect fair value (e.g. either because the value is stale and/or the values are extremely diverse in range). These are usually securities which are distressed or that could be subject to a debt restructure or where reliable market prices are no longer available due to an inactive market or market dislocation. In these instances, prices are derived using internal valuation techniques including those described below with the objective of arriving at a fair value measurement that reflects the price at which an orderly transaction would take place between market participants on the measurement date. The techniques used require a number of assumptions relating to variables such as credit risk and interest rates. Examples of such variables include an average credit spread based on the corporate bond universe and the relevant duration of the asset being valued. The input assumptions are determined based on the best available information at the measurement dates. Securities valued in such manner are classified as level 3 where these significant inputs are not based on observable market data.

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

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

32 Fair value methodology continued

As at 31 December 2021, the Group held £43,421m of assets, net of liabilities, at fair value which were classified as level 3 within the fair value hierarchy (2020: £40,251m). This included £1,245m of loans (2020: £1,366m) and corresponding borrowings of £1,159m (2020: £1,301m) held by a subsidiary of the Group, attaching to a portfolio of buy-to-let mortgages financed largely by external third-party (non-recourse) borrowings (see Note 18 for further details). The Group's exposure to this portfolio is limited to the investments held by the With-Profits Fund. The fair value movements of these loans and borrowings have no effect on shareholders' profit and equity. The most significant non-observable inputs to the mortgage fair value are the level of future defaults and prepayments by the mortgage holders.

The investment properties of the Group are externally valued by professionally qualified external valuers using the RICS valuation standards. The Group's investment properties are predominantly valued using an income capitalisation technique. This technique calculates the value through the yield and rental value depending on factors such as the lease length, building quality, covenants and location. Typically these variables used are compared to recent transactions with similar features to those being valued. The valuation of investment property inherently captures the impact of climate change if it were located in an area subject to climate change events. The key inputs of yield and rental value are proxies for a range of factors which will include climate change. The trend is towards greener buildings achieving better rents and yields than comparable buildings, all other factors being equal.

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

32.3.2 Analysis of internally valued level 3 financial instruments

Level 3 financial assets, net of financial liabilities, which were internally valued as at 31 December 2021 were £11,933m (2020: £11,672m), representing 8.0% of the total fair-valued financial assets net of financial liabilities (2020: 7.9%).

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

- Debt securities of £10,917m as at 31 December 2021 (2020: £11,149m), of which £9,167m (2020: £9,725m) were valued using discounted cash flow models with an internally developed discount rate. The remaining debt securities were valued using other valuation methodologies such as enterprise valuation and estimated recovery (such as liquidators' reports)
- Private equity investments in both debt and equity securities of £381m as at 31 December 2021 (2020: £315m), of which investments of £380m (2020: £315m) were valued internally using a discounted cash flow model. The most significant inputs to the valuation are the forecast cash flows of the underlying business, internally derived discount rate, and terminal value assumption, all of which involve significant judgement. The valuation is performed in accordance with International Private Equity and Venture Capital Association valuation guidelines. These investments are held by the Group's consolidated private equity infrastructure funds
- Equity release mortgage loans of £1,723m as at 31 December 2021 (2020: £1,777m) and a corresponding liability of £403m (2020: £409m), which were valued internally using discounted cash flow models. The inputs that are most significant to the valuation of these loans are the internally derived discount rate, the current property value, the assumed future property growth and the assumed future annual property rental yields. During 2020 and 2021, the assumed future property growth assumption has been adjusted to make allowance for the expected short-term dynamics in the residential property market, as a result of the COVID-19 pandemic
- Liabilities of £1,241m as at 31 December 2021 (2020: £1,407m), for the third-party interest in consolidated funds in respect of the consolidated investment funds, which are non-recourse to the Group. These liabilities were valued by reference to the underlying assets

32.3.3 Governance of level 3 valuations

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

32 Fair value methodology continued

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

The tables below present the Group's assets measured at fair value by level of the fair value hierarchy for each component of business as set out in Note 33.

		2021			
As at 31 December	Note	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
With-profits:					
Investment property		–	–	17,707	17,707
Loans		–	141	1,411	1,552
Derivative assets		65	2,553	–	2,618
Equity securities and pooled investment funds		45,599	4,162	10,884	60,645
Debt securities		28,014	21,275	5,675	54,964
Total with-profits		73,678	28,131	35,677	137,486
Unit-linked:					
Investment property		–	–	931	931
Derivative assets		3	2	–	5
Equity securities and pooled investment funds		12,733	425	74	13,232
Debt securities		3,949	2,528	22	6,499
Total unit-linked		16,685	2,955	1,027	20,667
Annuity and other long-term business:					
Investment property		–	–	1,060	1,060
Loans		–	–	1,723	1,723
Derivative assets		–	561	58	619
Equity securities and pooled investment funds		3	–	2	5
Debt securities		5,036	6,557	6,673	18,266
Total annuity and other long-term business		5,039	7,118	9,516	21,673
Other:					
Derivative assets		–	131	–	131
Equity securities and pooled investment funds		179	–	8	187
Debt securities		731	599	–	1,330
Total other		910	730	8	1,648
Group:					
Investment property		–	–	19,698	19,698
Loans		–	141	3,134	3,275
Derivative assets	33	68	3,247	58	3,373
Equity securities and pooled investment funds	33	58,514	4,587	10,968	74,069
Debt securities	33	37,730	30,959	12,370	81,059
Total assets at fair value		96,312	38,934	46,228	181,474

32 Fair value methodology continued

As at 31 December		2020 Level 1 £m	2020 Level 2 £m	2020 Level 3 £m	2020 Total £m
With-profits:					
Investment property		–	–	17,167	17,167
Loans		–	–	1,443	1,443
Derivative assets		112	4,698	–	4,810
Equity securities and pooled investment funds		43,920	3,560	7,562	55,042
Debt securities		19,443	30,563	5,637	55,643
Total with-profits		63,475	38,821	31,809	134,105
Unit-linked:					
Investment property		–	–	409	409
Derivative assets		3	5	–	8
Equity securities and pooled investment funds		11,941	349	889	13,179
Debt securities		2,633	5,868	5	8,506
Total unit-linked		14,577	6,222	1,303	22,102
Annuity and other long-term business:					
Investment property		–	–	1,530	1,530
Loans		–	–	1,777	1,777
Derivative assets		–	778	–	778
Equity securities and pooled investment funds		2	–	2	4
Debt securities		3,141	10,191	6,942	20,274
Total annuity and other long-term business		3,143	10,969	10,251	24,363
Other:					
Derivative assets		–	109	–	109
Equity securities and pooled investment funds		189	–	5	194
Debt securities		801	215	–	1,016
Total other		990	324	5	1,319
Group:					
Investment property		–	–	19,106	19,106
Loans		–	–	3,220	3,220
Derivative assets	33	115	5,590	–	5,705
Equity securities and pooled investment funds	33	56,052	3,909	8,458	68,419
Debt securities	33	26,018	46,837	12,584	85,439
Total assets at fair value		82,185	56,336	43,368	181,889

32 Fair value methodology continued

32.5 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:

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

As at 31 December	2020 Level 1 £m	2020 Level 2 £m	2020 Level 3 £m	2020 Total £m
Investment contract liabilities without discretionary participation features	–	15,547	–	15,547
Third-party interest in consolidated funds	7,972	3,886	1,407	13,265
Subordinated liabilities and other borrowings	–	–	1,301	1,301
Derivative liabilities	37	3,423	–	3,460
Accruals, deferred income and other liabilities	–	–	409	409
Total liabilities at fair value	8,009	22,856	3,117	33,982

32.6 Transfers between levels

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

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

For the year ended 31 December	2021 Transfers between levels: Equity securities and pooled investment funds £m	Debt securities £m	Derivatives £m	Total £m
From level 1 to level 2	1	1,372	–	1,373
From level 1 to level 3	5	–	–	5
From level 2 to level 1[i]	–	10,921	–	10,921
From level 2 to level 3[ii]	451	364	54	869
From level 3 to level 1	1	–	–	1
From level 3 to level 2	35	172	–	207

i The transfers in debt securities from level 2 to level 1 are primarily driven by increased liquidity in the bond markets towards the end of December 2021, compared to a fall in liquidity towards the end of December 2020, and refinements made to our levelling methodology.

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

32 Fair value methodology continued

For the year ended 31 December	2020 Transfers between levels Equity securities and pooled investment funds £m	Debt securities £m	Derivatives	Total £m
From level 1 to level 2[i]	–	8,200	–	8,200
From level 1 to level 3	7	–	–	7
From level 2 to level 1	–	3,930	–	3,930
From level 2 to level 3	84	439	–	523
From level 3 to level 2	–	202	–	202

32.7 Reconciliation of movements in level 3 assets and liabilities

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

	For the year ended 31 December 2021										
	At 1 Jan £m	Total gains/ (losses) recorded in income statement £m	Foreign exchange £m	Purchases £m	Sales £m	Transfer to held for sale £m	Settled £m	Issued £m	Transfers into level 3 £m	Transfers out of level 3 £m	At 31 Dec £m
Level 3 assets:											
Investment property	19,106	1,258	(411)	2,002	(1,310)	(947)	–	–	–	–	19,698
Loans	3,220	1	(1)	99	(20)	–	(165)	–	–	–	3,134
Equity securities and portfolio holdings in unit trusts	8,458	2,147	(1)	1,830	(1,886)	–	–	–	456	(36)	10,968
Debt securities	12,584	(393)	–	1,329	(1,342)	–	–	–	364	(172)	12,370
Derivative assets	–	–	–	–	–	–	–	–	58	–	58
Total level 3 assets	43,368	3,013	(413)	5,260	(4,558)	(947)	(165)	–	878	(208)	46,228
Level 3 liabilities:											
Third-party interest in consolidated funds	1,407	91	2	–	–	–	(711)	452	–	–	1,241
Borrowings and subordinated liabilities	1,301	–	–	–	–	–	(142)	–	–	–	1,159
Derivative liabilities	–	–	–	–	–	–	–	–	4	–	4
Other liabilities	409	1	–	–	–	–	(7)	–	–	–	403
Total level 3 liabilities	3,117	92	2	–	–	–	(860)	452	4	–	2,807

32 Fair value methodology continued

	For the year ended 31 December 2020										
	At 1 Jan £m	Total gains/ (losses) recorded in income statement £m	Foreign exchange £m	Purchases £m	Sales £m	Transfer to held for sale £m	Settled £m	Issued £m	Transfers into level 3 £m	Transfers out of level 3 £m	At 31 Dec £m
Level 3 assets:											
Investment property	19,136	(752)	234	874	(281)	(105)	–	–	–	–	19,106
Loans	3,339	36	–	9	(45)	–	(119)	–	–	–	3,220
Equity securities and portfolio holdings in unit trusts	8,161	(141)	78	1,033	(764)	–	–	–	91	–	8,458
Debt securities	11,215	1,038	4	1,365	(1,296)	–	–	21	439	(202)	12,584
Total level 3 assets	41,851	181	316	3,281	(2,386)	(105)	(119)	21	530	(202)	43,368
Level 3 liabilities:											
Third-party interest in consolidated funds	1,135	39	–	–	–	–	(486)	719	–	–	1,407
Borrowings and subordinated liabilities	1,422	–	–	–	–	–	(121)	–	–	–	1,301
Other liabilities	390	26	–	–	–	–	(7)	–	–	–	409
Total level 3 liabilities	2,947	65	–	–	–	–	(614)	719	–	–	3,117

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

Unrealised gains and losses recognised in the consolidated income statement in respect of assets and liabilities classified as level 3 that are held at the end of the year are analysed as follows:

For the year ended 31 December	**2021 £m**	2020 £m
Investment property	**918**	(769)
Loans	**1**	32
Equity securities and pooled investment funds	**2,407**	(550)
Debt securities	**(332)**	1,030
Third-party interest in consolidated funds	**(51)**	(183)
Other financial liabilities	**1**	26
Total	**2,944**	(414)

32 Fair value methodology continued

32.9 Fair value level 3 inputs and sensitivities

32.9.1 Level 3 asset inputs

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

The most significant unobservable inputs in determining the fair value of level 3 assets are presented within the tables below.

Real estate:

			Average estimated rental value[i]		Average equivalent yield	
As at 31 December	Property type	Geographical location	**2021**	2020	**2021**	2020
Investment property	Industrial	UK	**£9**	£9	**4.98%**	5.25%
		Europe	**€55**	€55	**4.43%**	5.21%
		Asia/Pacific	**$98**	$109	**5.11%**	6.13%
	Office	UK	**£34**	£36	**5.42%**	5.51%
		Europe	**€304**	€293	**4.26%**	4.53%
		Asia/Pacific	**$509**	$519	**5.26%**	5.56%
		North America	**$46**	$47	**5.25%**	5.25%
	Residential	UK	**£31**	£32	**3.77%**	3.88%
		Europe	**€244**	€237	**3.72%**	4.08%
		Asia/Pacific	**$275**	$300	**4.97%**	5.12%
	Retail	UK	**£28**	£33	**6.34%**	6.87%
		Europe	**€537**	€515	**4.29%**	4.80%
		Asia/Pacific	**$310**	$348	**6.75%**	6.45%
	Other	UK	**£27**	£32	**6.40%**	5.98%
		Europe	**€132**	€121	**5.38%**	5.80%
		Asia/Pacific	**$213**	$233	**8.00%**	8.00%

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

Other assets:

As at 31 December	Unobservable input	**2021**	2020
Retail income strips	Discount rate	**(1.86%) to 3.03%**	(1.99%) to 2.74%
Equity release mortgages	Discount rate	**1.10%**	1.46%
	Total portfolio property value	**c.£3.3bn**	c.£3.3bn
	Assumed property growth rate	**3.05%**	2.86%
	Property rental yield	**2.00%**	2.00%
Private placement loans	*Credit risk premium:*		
	AAA to A	**0.33% to 1.08%**	0.27% to 2.22%
	BBB to BB	**0.48% to 3.59%**	0.44% to 6.35%
Infrastructure fund investments	Discount rate	**7.75% to 12%**	9.5% to 12.5%

32 Fair value methodology continued

32.9.2 Level 3 asset sensitivities

The table below provides a breakdown of assets within the level 3 fair value hierarchy by investment type, the sensitivity of the most significant unobservable inputs on their fair value, and the impact on IFRS profit after tax and shareholders' equity for those held within the shareholder backed-funds.

	2021						
As at 31 December	Fair value £m	Held in shareholder-backed fund £m	Valuation technique	Most significant unobservable input	Sensitivity	Change in fair value £m	Impact on IFRS profit after tax and shareholders' equity[vii] £m
Investment property							
Property in use	**18,934**	**1,965**	Income capitalisation	Equivalent yield	Decrease by 50bps	**2,326**	**163**
					Increase by 50bps	**(1,882)**	**(129)**
				Estimated rental value	Decrease by 10%	**(1,621)**	**(80)**
					Increase by 10%	**1,710**	**80**
Property under development	**764**	**26**		Fair value	Increase by 10%	**(76)**	**–**
					Decrease by 10%	**76**	**–**
Loans							
Equity-release mortgages[i]	**1,723**	**1,723**	Discounted cash flow[ii]	Discount rate	Increase by 50bps	**(140)**	**(158)**
					Decrease by 50bps	**155**	**174**
				Current property value	Increase by 10%	**44**	**50**
					Decrease by 10%	**(53)**	**(60)**
				Assumed annual property growth rate	Increase by 100bps	**127**	**143**
					Decrease by 100bps	**(178)**	**(201)**
				Assumed annual property rental yield	Increase by 100bps	**(83)**	**(93)**
					Decrease by 100bps	**79**	**89**
Other mortgage and retail loans	**1,411**	**–**	Broker quotes[iii]	Fair value	Increase by 10%	**141**	**–**
					Decrease by 10%	**(141)**	**–**
Equity securities and pooled investment funds[iv]	**10,880**	**84**	Net asset statements	Net asset value	Increase by 10%	**1,088**	**1**
					Decrease by 10%	**(1,088)**	**(1)**
Infrastructure fund investments	**380**	**–**	Discounted cash flow[v]	Discount rate	Increase by 10%	**(34)**	**–**
					Decrease by 10%	**34**	**–**
Debt securities[iv]							
Private placement loans	**8,776**	**5,225**	Discounted cash flow[vi]	Discount rate	Increase by 40bps	**(649)**	**(487)**
					Decrease by 40bps	**728**	**548**
Retail income strips	**391**	**331**	Discounted cash flow[vi]	Discount rate	Increase by 50bps	**(41)**	**(41)**
					Decrease by 50bps	**52**	**52**
Unquoted corporate bonds	**2,911**	**1,117**	Broker quotes, enterprise valuation, estimated recovery	Fair value	Increase by 10%	**291**	**126**
					Decrease by 10%	**(291)**	**(126)**
Derivative assets	**58**	**58**	Discounted cash flow[vi]	Discount rate	Increase by 50bps	**(2)**	**(2)**
					Decrease by 50bps	**2**	**2**
Total level 3	**46,228**	**10,529**					

i The equity-release mortgages have a no-negative equity guarantee (NNEG) that caps the loan repayment in the event of death, or entry into long-term care, to be no greater than the proceeds from the sale of the property that the loans are secured against.

ii Future cashflows are estimated based on assumptions, including prepayment, death and entry into long-term care, and discounted using an appropriate discount rate. The NNEG is based on a Black-Scholes option pricing valuation, using assumptions including the current property value, future property growth and property rental yields, and is recognised as a deduction to the value of the loan.

iii Quotes received from an external pricing service.

iv Excludes infrastructure fund investments.

32 Fair value methodology continued

v These investments are valued in accordance with the International Private Equity and Venture Association valuation guidelines (latest edition December 2018). Valuations are also benchmarked against comparable infrastructure transactions. The discount rate is made up of cash flows from dividends due in respect of the equity investments and principal and interest from loan notes in respect of debt investments.

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

vii Of the £10,529m (31 December 2020: £11,559m) of level 3 assets held in shareholder-backed funds, £1,027m (2020: £1,303m) is held by unit-linked business. These assets are included in the analysis presented however, as the investment risk is borne by the unit-linked policyholders, there is no impact on IFRS profit after tax and shareholders' equity. The impact on IFRS profit after tax and shareholders' equity for the year ended 31 December 2020 as previously disclosed in the 2020 annual report and accounts has been restated to be on the same basis.

	2020						
As at 31 December	Fair value £m	Held in shareholder-backed fund £m	Valuation technique	Most significant unobservable input	Sensitivity	Change in fair value £m	Impact on IFRS profit after tax and shareholders' equity[vii] £m
Investment property							
Property in use	17,790	1,914	Income capitalisation	Equivalent yield	Decrease by 50bps	2,078	157
					Increase by 50bps	(1,733)	(126)
				Estimated rental value	Decrease by 10%	(1,476)	(63)
					Increase by 10%	1,417	63
Property under development	1,316	25		Fair value	Increase by 10%	132	–
					Decrease by 10%	(132)	–
Loans							
Equity-release mortgages[i]	1,777	1,777	Discounted cash flow[ii]	Discount rate	Increase by 50bps	(155)	(127)
					Decrease by 50bps	172	141
				Current property value	Increase by 10%	50	41
					Decrease by 10%	(59)	(48)
				Assumed annual property growth rate	Increase by 100bps	154	126
					Decrease by 100bps	(215)	(176)
				Assumed annual property rental yield	Increase by 100bps	(94)	(77)
					Decrease by 100bps	91	74
Other mortgage and retail loans	1,443	–	Broker quotes[iii]	Fair value	Increase by 10%	144	–
					Decrease by 10%	(144)	–
Equity securities and pooled investment funds[iv]	8,377	896	Net asset statements	Net asset value	Increase by 10%	838	1
					Decrease by 10%	(838)	(1)
Infrastructure fund investments	315	–	Discounted cash flow[v]	Discount rate	Increase by 10%	(36)	–
					Decrease by 10%	41	–
Debt securities[iv]							
Private placement loans	9,298	5,521	Discounted cash flow[vi]	Discount rate	Increase by 85bps	(1,105)	(597)
					Decrease by 85bps	1,378	751
Retail income strips	427	362	Discounted cash flow[vi]	Discount rate	Increase by 50bps	(47)	(33)
					Decrease by 50bps	60	42
Unquoted corporate bonds	2,625	1,064	Broker quotes, enterprise valuation, estimated recovery	Fair value	Increase by 10%	263	86
					Decrease by 10%	(263)	(86)
Total level 3	43,368	11,559					

32 Fair value methodology continued

32.10 Fair value of assets and liabilities at amortised cost

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

	2021				
As at 31 December	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total fair value £m**	**Total carrying value £m**
Assets:					
Loans	**–**	**512**	**2,089**	**2,601**	**2,534**
Liabilities:					
Subordinated liabilities and other borrowings	**–**	**7,682**	**201**	**7,883**	**7,771**

	2020				
As at 31 December	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m	Total carrying value £m
Assets:					
Loans	–	710	2,193	2,903	2,811
Liabilities:					
Subordinated liabilities and other borrowings	–	7,094	94	7,188	6,966

The estimated fair value of subordinated liabilities is based on the quoted market offer price. The fair value of the other assets and liabilities in the tables above have been estimated from the discounted cash flows expected to be received or paid. Where appropriate, an observable market interest rate has been used and the assets and liabilities are classified within level 2. Otherwise, they are included as level 3 assets or liabilities.

33 Risk management and sensitivity analysis

33.1 Risk overview

The Group's business involves the acceptance and management of risk. The Group's risk management process is governed by the Risk Management Framework (RMF). The RMF has been designed to identify, assess, measure, manage, monitor and report on the principal risks of the Group. Risk management is designed to increase the Group's understanding of the risks inherent in the business, improve decision-making and prevent the Group from failing to achieve its business objectives, including delivery of fair customer outcomes.

The RMF is codified through risk policies and business standards which set out the management framework for key risk types, including risk appetite, and minimum standards for the Group's operations. To ensure completeness and consistency when comparing risk information across the Group, a common methodology for categorising risk has been adopted.

Risk appetite is the amount and type of risk that is acceptable to the Group, as determined by the Board, and is a function of the Group's strategic and business objectives and its capital resources. Risk appetite therefore refers to the Group's attitude towards risk-taking and whether it is willing and able to tolerate either a high or a low level, or none of specific risks or risk groups. As a result, risk appetite has a central role in informing decision-making across the Group and assisting in the optimisation of return on capital invested.

33 Risk management and sensitivity analysis continued

A number of risk factors affect the Group's results and financial position. The financial risk categories affecting the Group's financial instruments and insurance assets and liabilities are set out below:

Risk type	Definition
Market risk	The risk of loss or adverse change in the financial situation of the business or that of the Group's customers and clients resulting, directly or indirectly, from fluctuations in the level or volatility of market prices of assets and liabilities.
Credit risk	The risk of loss or adverse change in the financial situation of the business, or that of the Group's customers and clients, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors in the form of default or other significant credit event, such as downgrade or spread widening.
Demographic risk	The risk of loss for the Group, or of adverse change in the financial situation of the business, resulting from changes in the level, trend or volatility of a number of demographic risk drivers. These include: – Mortality/longevity risk: the risk of loss, the inability to meet contractual or other liabilities, and/or profit volatility resulting from adverse mortality and/or longevity experience compared to that estimated within pricing, underwriting and valuation. – Morbidity risk: the risk of loss, the inability to meet contractual or other liabilities, and/or profit volatility resulting from adverse morbidity experience compared to that estimated within pricing, underwriting and valuation. – Persistency risk: the risk of loss, the inability to meet contractual or other liabilities, and/or profit volatility resulting from an adverse persistency experience compared to that estimated within pricing and valuation.
Expense and margin pricing risk	The risk of loss, the inability to meet contractual or other liabilities, and/or profit volatility resulting from adverse experience in expenses other than those estimated within pricing and valuation when considering insurance contracts or funds under management.
Liquidity risk	Treasury liquidity risk is the risk of loss for the Group's business, or of adverse changes in its financial situation, resulting from the Group's inability to generate sufficient cash resources to meet financial obligations (for example, claims, creditors and planned dividends) as they fall due. Fund liquidity risk is the risk of being unable to meet liabilities arising from a mismatch in liquidity of the underlying assets and the frequency of liability requirements of the fund.

The Group's exposure to risks arising from financial instruments and insurance assets and liabilities is different for each component of the Group's business. The Group's consolidated statement of financial position is presented below for the different components of business.

33 Risk management and sensitivity analysis continued

Analysis of consolidated statement of financial position by component of business

		Shareholder-backed funds			
As at 31 December 2021	With-profits £m	Unit-linked £m	Annuity and other long-term business £m	Other £m	Total £m
Assets:					
Goodwill and intangible assets	286	–	27	1,302	1,615
Deferred acquisition costs	–	–	78	16	94
Investment in joint ventures and associates accounted for using the equity method	469	–	–	–	469
Property, plant and equipment	2,239	–	27	270	2,536
Investment property	17,707	931	1,060	–	19,698
Defined benefit pension asset	27	–	–	11	38
Deferred tax assets	49	–	1	69	119
Reinsurance assets	20	101	1,548	–	1,669
Loans	3,578	–	2,231	–	5,809
Derivative assets	2,618	5	619	131	3,373
Equity securities and pooled investment funds	60,645	13,232	5	187	74,069
Deposits	14,066	1,852	1,715	–	17,633
Debt securities	54,964	6,499	18,266	1,330	81,059
Current tax assets	281	1	88	5	375
Accrued investment income and other debtors	1,559	380	443	265	2,647
Assets held for sale	646	249	–	128	1,023
Cash and cash equivalents	3,773	460	1,012	1,663	6,908
Total assets	**162,927**	**23,710**	**27,120**	**5,377**	**219,134**
Liabilities:					
Insurance contract liabilities	39,203	4,978	19,042	–	63,223
Investment contract liabilities with discretionary participation features	82,700	–	43	–	82,743
Investment contract liabilities without discretionary participation features	3	14,835	46	–	14,884
Unallocated surplus of the With-Profits Fund	16,723	–	–	–	16,723
Third party interest in consolidated funds	9,835	2,767	9	25	12,636
Subordinated liabilities and other borrowings	5,117	–	107	3,706	8,930
Defined benefit pension liability	20	–	30	34	84
Deferred tax liabilities	1,129	–	28	–	1,157
Current tax liabilities	142	46	113	22	323
Derivative liabilities	1,227	3	1,127	332	2,689
Lease liabilities	95	3	18	297	413
Other financial liabilities	2,690	–	79	113	2,882
Provisions	–	–	26	112	138
Accruals, deferred income and other liabilities	4,043	1,078	1,810	33	6,964
Liabilities held for sale	–	–	–	–	–
Total liabilities	**162,927**	**23,710**	**22,478**	**4,674**	**213,789**
Total equity					**5,345**
Total equity and liabilities					**219,134**

33 Risk management and sensitivity analysis continued

As at 31 December 2020	With-profits £m	Shareholder-backed funds Unit-linked £m	Annuity and other long-term business £m	Other £m	Total £m
Assets:					
Goodwill and intangible assets	282	–	32	1,181	1,495
Deferred acquisition costs	–	–	84	14	98
Investment in joint ventures and associates accounted for using the equity method	421	–	–	35	456
Property, plant and equipment	1,725	–	40	301	2,066
Investment property	17,167	409	1,530	–	19,106
Defined benefit pension asset	41	–	–	17	58
Deferred tax assets	–	–	39	69	108
Reinsurance assets	20	103	11,638	–	11,761
Loans	3,741	–	2,290	–	6,031
Derivative assets	4,810	8	778	109	5,705
Equity securities and pooled investment funds	55,042	13,179	4	194	68,419
Deposits	14,725	1,293	1,611	–	17,629
Debt securities	55,643	8,506	20,274	1,016	85,439
Current tax assets	204	–	194	20	418
Accrued investment income and other debtors	1,864	414	493	252	3,023
Assets held for sale	120	–	–	18	138
Cash and cash equivalents	4,442	258	1,041	1,035	6,776
Total assets	160,247	24,170	40,048	4,261	228,726
Liabilities:					
Insurance contract liabilities	41,172	4,987	30,491	–	76,650
Investment contract liabilities with discretionary participation features	79,592	–	31	–	79,623
Investment contract liabilities without discretionary participation features	2	15,468	77	–	15,547
Unallocated surplus of the With-Profits Fund	15,621	–	–	–	15,621
Third-party interest in consolidated funds	9,930	3,318	9	8	13,265
Subordinated liabilities and other borrowings	4,381	7	150	3,729	8,267
Defined benefit pension liability	42	–	64	64	170
Deferred tax liabilities	861	–	55	–	916
Current tax liabilities	1	29	208	38	276
Derivative liabilities	2,075	2	1,052	331	3,460
Lease liabilities	34	–	18	302	354
Other financial liabilities	3,144	–	159	88	3,391
Provisions	9	–	81	145	235
Accruals, deferred income and other liabilities	3,308	359	1,550	74	5,291
Liabilities of operations held for sale	75	–	–	–	75
Total liabilities	160,247	24,170	33,945	4,779	223,141
Total equity					5,585
Total equity and liabilities					228,726

The financial assets and liabilities attaching to the Group's business are, to varying degrees, subject to the risks described previously and these risks may have a material effect on profit or loss and shareholders' equity. This is discussed below by component of business.

33 Risk management and sensitivity analysis continued

33.1.1 With-profits business

The With-Profits Fund mainly contains with-profits business but it also contains some non-profit business (unit-linked, term assurances and annuities). As at 31 December 2021, the With-Profits Fund included £9,321m (2020: £10,449m) of non-profit annuity liabilities.

WPSF

The shareholder exposure to the WPSF business (including non-profit annuity business of the WPSF) is sensitive to market and credit risk through the indirect effect of investment performance on declared policyholder bonuses. The investment assets of the WPSF are subject to market and credit risk. Changes in their carrying value, net of related changes to asset-share liabilities of with-profits contracts, affect the level of unallocated surplus of the fund. Therefore, the level of unallocated surplus is particularly sensitive to the level of investment returns on the portion of the assets that represents the surplus. However, as unallocated surplus is accounted for as a liability under IFRS 4, movements in its value do not affect shareholders' profit and equity, so the shareholder is not directly exposed to changes in the assets and liabilities within the WPSF.

The shareholder result for most business in the WPSF is one-ninth of the cost of bonuses declared to with-profits policyholders. For certain with-profits contracts, such as those invested in the PruFund range of funds, the bonuses represent the policyholders' net return based on the smoothed unit price of the selected investment fund. Investment performance is a key driver of bonuses declared, and hence the shareholder results. Due to the "smoothed" basis of bonus declaration, the sensitivity to short-term investment performance and other insurance risks is relatively low. However, long-term investment performance and persistency trends may affect future shareholder transfers.

The equity risk relating to the future shareholder transfers from the WPSF is partially hedged, and this is described in Note 33.7.1.

DCPSF

The DCPSF is shown as part of the with-profits consolidated statement of financial position. For similar reasons to those described in relation to the WPSF, shareholders are not directly exposed to the movements in the assets and liabilities of the DCPSF. Instead, the shareholders' exposure is through the charges arising on the business less the expenses incurred. The charges incurred on the business are dependent on the value of the funds under management and are therefore indirectly exposed to market risk, credit risk and persistency risk.

SAIF

Up until 1 April 2021 SAIF was a ring-fenced fund, shown as part of the with-profits consolidated statement of financial position, in which, apart from asset management fees, shareholders have no entitlement to the profits of the fund. On 1 April 2021 SAIF merged with PAC's WPSF and the assets and liabilities of SAIF were combined with those of the WPSF. Shareholders will continue to have no entitlement to profit transfers and will continue to receive asset management fees. Accordingly, the Group's profit and shareholders' funds are not sensitive to the direct effects of risk attaching to SAIF's assets and liabilities.

33.1.2 Unit-linked business

Unit-linked business represents a comparatively small proportion of the in-force business of the Group's insurance operations. Due to policyholder liabilities moving in line with attaching asset value movements, the shareholders' exposure to the unit-linked business is not directly affected by market or credit risk. Profits from unit-linked contracts primarily arise from the excess of charges to policyholders for management of assets over expenses incurred. The charges received are sensitive to the movement in funds under management due to investment performance, as well as persistency experience. The accounting impact of the expenses incurred is dependent upon the amortisation of acquisition costs in line with the emergence of margins (for insurance contracts) and amortisation in line with service provision (for the investment management component of investment contracts). By virtue of the design features of most of the contracts which provide low levels of mortality cover, the profit is relatively insensitive to changes in mortality experience. Amounts under unit-linked contracts are generally repayable on demand and the Group is responsible for ensuring there is sufficient liquidity within the asset portfolio to enable liabilities to unit-linked policyholders to be met as they fall due.

In the consolidated statement of financial position, the unit-linked business is shown as having no contribution to shareholders' equity. This is because the surplus assets of the unit-linked business have been allocated to the "annuity and other long-term business" component for presentation purposes as they are pooled with the surplus assets of this business. Despite this presentation, shareholders are exposed to the risks arising from unit-linked business as described above.

33 Risk management and sensitivity analysis continued

33.1.3 Annuity and other long-term business

The Group's shareholder-backed annuity liabilities are exposed to market movements, but these are closely matched with assets of an appropriate duration. The level of matching from year to year can vary depending on management actions and economic factors and therefore it is possible for a degree of mismatching exposure to arise. Aside from the extent of any asset/liability duration mismatch, the sensitivity to market risk arising from movements in the value of annuity liabilities net of covering assets is broadly neutral. However, the assets held in excess of the liabilities, which back the capital requirements of the annuity business, result in exposure to market risk. These assets are primarily debt securities.

Shareholders are directly exposed to credit risk (asset default, downgrade and spread widening) arising on the assets held within the shareholder-backed funds, and the corresponding impact on the measurement of the liabilities. The shareholder-backed annuity results are particularly sensitive to changes in assumptions about future mortality improvements which impact the measurement of the liabilities, and also to the variance between actual and expected mortality experience each year. The results are also sensitive to changes in expense levels over the longer term.

Also included within this component of business are the Group's lifetime mortgage assets, whose value can vary in line with market and demographic factors. Further detail on the valuation of these assets is provided in Note 33.3.2.

The assets and liabilities of the other long-term business, which includes legacy protection business, are not significant in the context of the Group's financial assets and liabilities and therefore do not contribute significantly to the Group's risk exposure.

33.1.4 Other

This includes the financial assets and liabilities of the Group's asset management, platform business and other Group-level functions, including, central and treasury operations. The Group is exposed to market and credit risk in respect of financial assets held by the "other" component of business, although this direct exposure to market and credit risk is not significant to the results of the Group.

The ongoing profit arising from the asset management business is exposed to the risk that changes in market prices, such as foreign exchange rates, interest rates, equity prices and property will affect income earned from investment management activities. The profit arising from this business is also sensitive to the level of net client flows and to the level of expenses.

33.2 IFRS profit after tax sensitivity analysis

The impacts on IFRS profit after tax and shareholders' equity to the key economic and non-economic risks which may impact profit are summarised below. These risks are described in further detail throughout this note, including the disclosure of additional market risk sensitivities.

As at 31 December	Note	2021 £m	2020 £m
Economic sensitivities			
100bp increase in interest rates	33.3.1	**(890)**	(920)
100bp decrease in interest rates	33.3.1	**1,074**	1,107
10% fall in equity and property markets (excluding hedges)	33.3.2	**(95)**	(139)
10% fall in equity and property markets	33.3.2	**28**	(7)
5bps increase in credit default/downgrade allowance	33.4	**(64)**	(80)
Non-economic sensitivities			
1% decrease in base annuitant mortality assumptions	33.5	**(30)**	(37)
5% increase in maintenance expense assumptions	33.5	**(13)**	(22)

The sensitivities capture the immediate effects of an event occurring, as opposed to the longer-term or second-order effects which may impact future profits, and do not reflect management actions which could be taken to mitigate the impacts of these events occurring.

The interest rate stresses reflect a parallel shift in the nominal rate of interest at all durations. As described in Note 33.3.1, the impact on IFRS profit after tax predominantly arises from assets held in excess of the liabilities.

33 Risk management and sensitivity analysis continued

The equity and property sensitivities are presented both excluding and including the equity hedges relating to future shareholder transfers. As the majority of the hedges are in respect of shareholder transfers expected to arise in future years, which do not impact IFRS profit after tax until these emerge, the fair value movement in these hedges creates a temporary mismatch within IFRS profit after tax. For this reason the presentation of this sensitivity, excluding the impact of these hedges, gives the most appropriate representation of the Group's exposure to equity and property risk.

The credit default/downgrade sensitivity represents a 5bp increase in the assumed level of defaults and downgrades allowed for within the valuation interest rate when valuing policyholder liabilities in respect of non-profit annuity business.

The annuitant mortality sensitivity is a 1% reduction in the mortality rates for immediate and deferred annuitants with no change to mortality improvement rates, for the Group's non-profit annuity business.

The maintenance expense sensitivity is a 5% increase in future maintenance expense assumptions across all lines of business.

The credit default/downgrade allowance, annuitant mortality and maintenance expense sensitivities show the impact on IFRS profit after tax of changes in the Group's key estimates and assumptions when valuing policyholder liabilities as described in Note 1.4 and Note 26.1. The impact of this sensitivity on IFRS profit after tax is directly through a change in the policyholder liabilities. However, for business written in the Group's With-Profits Fund, the change in the policyholder liabilities is directly offset by a corresponding change in unallocated surplus of the With-Profits Fund and therefore has no impact on IFRS profit after tax.

33.3 Market risk

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

Market risk comprises six types of risk, namely:

- Interest rate risk: fluctuations in the level and volatility of interest rates or the shape or curvature of the yield curve or spread relationships
- Inflation risk: fluctuations in actual or implied inflation rates
- Equity risk: fluctuations in the level or volatility of equity investments
- Property risk: fluctuations in the level or volatility of property investments
- Currency risk: fluctuations, including translation risk, in the level or volatility of currency exposures
- Alternative investments risk: fluctuations in the level or volatility of alternative investment exposures (other than those detailed above)

The primary market risks that the Group faces are equity risk, property risk and interest rate risk. Most assets the Group holds are investments that are either equity or property-type investments and subject to equity or property price risk, or bonds, mortgages and cash deposits, the values of which are subject to interest rate risk. Alternative investments may exhibit some or all of these risks depending on the type of investment. The amount of risk borne by the Group's shareholders depends on the extent to which its customers share the investment risk through the structure of the Group's products. In particular, the shareholder is only directly exposed to market risk on the assets held within the "annuities and other long-term business" and "other" components of business, which are predominantly debt securities and investment properties in respect of the annuity funds.

The split of the Group's investments between equity investments and interest-sensitive instruments depends principally on the type of liabilities supported by those investments and the amount of capital the Group has available. This mix of liabilities allows the Group to invest a substantial portion of its investment funds in equity and property investments that the Group believes produce greater returns over the long-term.

Market risk is managed through a robust market risk framework which includes: policies, risk appetite statements and risk limits and triggers covering key market risk exposures; asset and liability management programmes; a quality of capital framework; strategic asset allocations; investment and hedging strategies; and investment constraints.

33.3.1 Interest rate risk and inflation risk

The majority of the Group's interest rate exposure arises from shareholder-backed annuities. The liabilities are exposed to interest rate movements, but these are closely matched with assets of an appropriate duration. The matching of assets of appropriate duration to the annuity liabilities is based on management of regulatory capital reporting requirements. The assets held in excess of the liabilities, which back the capital requirements of the annuity business, result in an exposure to interest rate risk.

The assets and liabilities for the with-profits and unit-linked components of business are sensitive to interest rates, but the shareholder is not directly exposed to changes in the value of these assets and liabilities. The shareholder is indirectly exposed to interest rate risk through the value of future shareholder transfers from with-profits business and charges levied on unit-linked and asset management business.

33 Risk management and sensitivity analysis continued

The estimated sensitivity of profit to a movement in interest rates downwards of 1% and upwards of 1% and 2% is noted in the tables below:

As at 31 December	2021 Decrease of 1% £m	2021 Increase of 1% £m	2021 Increase of 2% £m
Carrying value of debt securities and derivatives	**3,319**	**(2,773)**	**(5,189)**
Policyholder liabilities	**(1,887)**	**1,586**	**2,931**
Related deferred tax effects	**(358)**	**297**	**557**
Net sensitivity of profit after tax and shareholders' equity	**1,074**	**(890)**	**(1,701)**

As at 31 December	2020 Decrease of 1% £m	2020 Increase of 1% £m	2020 Increase of 2% £m
Carrying value of debt securities and derivatives	3,534	(2,944)	(5,520)
Policyholder liabilities	(2,168)	1,809	3,331
Related deferred tax effects	(259)	215	416
Net sensitivity of profit after tax and shareholders' equity	1,107	(920)	(1,773)

The impact of the carrying value of assets, policyholder liabilities and deferred tax effects are in respect of the shareholder-backed business only, with the majority of the impact arising from the shareholder-backed annuities.

Inflation risk primarily arises from certain annuity contracts that have benefit escalation linked to a price index. The Group manages this exposure by matching inflation-linked annuity liabilities with corresponding inflation-linked assets.

33.3.2 Equity and property risk

While the Group holds significant amounts of equity and property assets on its consolidated statement of financial position, the shareholders' exposure to equity and property risk for the with-profits and unit-linked business is limited as the risk is predominantly borne by the policyholder. Instead, the Group's direct exposure to this risk arises from the "annuities and other long-term business" component's holdings in equity securities and property, which are not hedged or matched by corresponding liabilities.

Excluding any longer-term, indirect effects on profit due to the future value of shareholder transfers from with-profits business and charges levied on unit-linked and asset management business, a fall in the fair value of these investments would have given rise to the following effects on pre-tax profit, profit after tax, and shareholders' equity. The majority of the sensitivity arises in respect of investment property assets held in the annuity funds.

For the year ended 31 December	2021 Decrease of 20% £m	2021 Decrease of 10% £m	2020 Decrease of 20% £m	2020 Decrease of 10% £m
Pre-tax profit	**(252)**	**(125)**	(344)	(172)
Related deferred tax effects	**64**	**30**	65	33
Net sensitivity of profit after tax and shareholders' equity	**(188)**	**(95)**	(279)	(139)

A 10% or 20% increase in their value would have an approximately equal and opposite effect on profit and shareholders' equity to the sensitivities shown above. The market risk sensitivities shown above reflect the impact of temporary market movements.

In the equity risk sensitivity analysis shown above, the Group has considered the impact of an instantaneous 10% or 20% fall in equity markets. If equity markets were to fall by more than 20%, the Group believes that this would not be an instantaneous fall but rather would be expected to occur over a period of time, during which the Group would be able to put in place mitigating management actions.

33 Risk management and sensitivity analysis continued

As noted above, the analysis excludes the indirect exposure of ongoing profit to equity and property risk through the impact on policyholder bonuses on with-profits business and charges levied on unit-linked and asset management business. For with-profits business, the impact of market risk is reduced due to the "smoothed" basis of bonus declaration, so the sensitivity to short-term investment performance is relatively low. However, long-term investment performance may affect future shareholder transfers. The Group has entered into a partial equity hedge of the shareholder transfers expected to emerge from the WPSF in order to mitigate this risk. Due to the mismatch that results from a difference in the timing of fair value movements on the hedges and the emergence of the underlying shareholder transfers, the above sensitivities do not include the impact of these hedges as this gives the most appropriate representation of the Group's exposure to equity and property risk.

The impact of the sensitivities allowing for the equity hedges is shown below.

	2021		2020	
For the year ended 31 December	**Decrease of 20% £m**	**Decrease of 10% £m**	Decrease of 20% £m	Decrease of 10% £m
Pre-tax profit	**71**	**38**	(3)	(9)
Related deferred tax effects	**(18)**	**(10)**	–	2
Net sensitivity of profit after tax and shareholders' equity	**53**	**28**	(3)	(7)

33.3.3 Currency risk

The Group invests significant amounts of policyholder funds in overseas assets as part of its investment strategy. The direct currency risk exposure to the shareholder from the with-profits and unit-linked components of business is minimal, although the shareholder is indirectly exposed to currency risk in relation to the future value of shareholder transfers from with-profits business and charges levied on unit-linked and asset management business. Currency risk exposure arising from overseas assets held by the shareholder-backed annuity and other long-term business is mitigated through the use of derivatives.

As at 31 December 2021, the Group held 44% (2020: 40%) and 9% (2020: 7%) of its financial assets and financial liabilities respectively, in currencies, mainly US dollar and euro, other than pounds sterling, the functional currency of the Group.

Of these financial assets, as at 31 December 2021, 71% (2020: 94%) are held by the With-Profits Fund, allowing the fund to obtain exposure to foreign equity markets. Of these financial liabilities, as at 31 December 2021, 86% (2020: 83%) are held by the With-Profits Fund, mainly relating to foreign currency borrowings. The exchange risks inherent in these exposures are mitigated through the use of derivatives, mainly forward currency contracts.

For the year ended 31 December 2021, exchange losses of £120m (2020: losses of £178m) were recognised in the income statement; mainly arising on investments held by the With-Profits Fund, the majority of which are offset by changes in with-profits and unit-linked liabilities. This excludes exchange gains and losses arising on foreign currency derivatives measured at FVTPL, which are included as part of gains and losses included in investment return, which is shown in Note 4.

The Group is also exposed to structural currency translation risk as a result of overseas operations which contribute to equity. The assets and liabilities of foreign operations are translated into the Group's presentational currency, pounds sterling. Foreign exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve.

33.4 Credit risk

The Group's exposure to credit risk primarily arises from the annuity funds, which hold substantial volumes of public and private fixed income investments on which a certain level of defaults and downgrades are expected. The sensitivity of IFRS profit after tax and IFRS shareholders' equity to a change in the credit default and downgrade allowance within the valuation rate of interest of shareholder-backed non-profit annuities is shown in Note 33.2.

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

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

33 Risk management and sensitivity analysis continued

33.4.1 Financial assets

The following tables provide an analysis of the quality of financial assets which are exposed to credit risk. The financial assets below are analysed according to external credit ratings issued, with equivalent ratings issued by different ratings agencies grouped together. Standard & Poor's ratings have been used where available. For securities where Standard & Poor's ratings are not immediately available, those produced by Moody's and then Fitch have been used as an alternative.

As at 31 December 2021	AAA £m	AA+ to AA- £m	A+ to A- £m	BBB+ to BBB- £m	Below BBB- £m	Other £m	Total £m
Accrued investment income and other debtors	72	89	138	197	64	2,087	2,647
Cash and cash equivalents	–	840	5,396	562	9	101	6,908
Debt securities	7,857	18,093	14,103	19,058	6,589	15,359	81,059
Deposits	–	4,376	7,857	4,278	–	1,122	17,633
Loans held at fair value	789	1,956	60	18	50	402	3,275
Loans held at amortised cost	–	–	69	175	285	2,005	2,534
Reinsurance assets	–	750	(43)	1,053	–	(91)	1,669
Total financial assets	**8,718**	**26,104**	**27,580**	**25,341**	**6,997**	**20,985**	**115,725**

As at 31 December 2020	AAA £m	AA+ to AA- £m	A+ to A- £m	BBB+ to BBB- £m	Below BBB- £m	Other £m	Total £m
Accrued investment income and other debtors	78	242	409	188	70	2,036	3,023
Cash and cash equivalents	1,585	1,187	3,920	63	10	11	6,776
Debt securities[i]	9,391	15,597	14,009	20,221	5,883	20,338	85,439
Deposits	–	2,130	10,273	3,049	–	2,177	17,629
Loans held at fair value	931	235	1,839	18	40	157	3,220
Loans held at amortised cost	–	–	–	–	301	2,510	2,811
Reinsurance assets	–	269	–	11,251	–	241	11,761
Total financial assets	11,985	19,660	30,450	34,790	6,304	27,470	130,659

i Of the £85,439m of debt securities as at 31 December 2020, £1,854m has been reallocated to "Other" due to better information becoming available. Further analysis of "Other" in this section and the analysis provided in 33.4.2 has also been updated accordingly.

The credit ratings, information or data contained in this report which are attributed and specifically provided by Standard & Poor's, Moody's and Fitch and their respective affiliates and suppliers ("Content Providers") is referred to here as the "Content". Reproduction of any content in any form is prohibited except with the prior written permission of the relevant party. The Content Providers do not guarantee the accuracy, adequacy, completeness, timeliness or availability of any Content and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such Content. The Content Providers expressly disclaim liability for any damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with any use of the Content. A reference to a particular investment or security, a rating or any observation concerning an investment that is part of the Content is not a recommendation to buy, sell or hold any such investment or security, nor does it address the suitability of an investment or security and should not be relied on as investment advice.

In the table above, AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB ratings. Financial assets which fall outside this range are classified as below BBB- and are non-investment grade.

The Group is exposed to the risk of counterparty default on its reinsurance assets. The Group evaluates the financial condition of its reinsurers and monitors concentration of credit risk to minimise its exposure from reinsurer insolvencies. The split of the reinsurance asset by credit rating is shown above.

The reinsurance asset within the BBB+ to BBB- rating category in 2020 primarily consists of annuity business reinsured to Rothesay Life PLC that were held in a custody account. Following the completion of the Part VII transfer in December 2021, the assets are no longer on the Group's balance sheet.

Of the total loans and accrued investment income & other debtors held as at 31 December 2021, £64m (2020: £46m) were past their due date but were not impaired. Of the total past due but not impaired, all were less than one year past their due date. The Group expects full recovery of these loans and accrued investment income & other debtors.

Loans that were impaired are not significant to the Group. Further information on the loans portfolio is provided in Note 18.

33 Risk management and sensitivity analysis continued

Debt securities with no external credit rating are classified as “other”. The following table shows the majority of debt securities shown as “other” are allocated an internal rating and are considered to be of investment grade quality:

As at 31 December	2021 £m	2020[i] £m
AAA	**53**	162
AA+ to AA-	**3,326**	3,363
A+ to A-	**5,301**	5,896
BBB+ to BBB-	**2,215**	2,327
Below BBB-	**859**	596
Unrated	**3,605**	7,994
Total	**15,359**	20,338

33.4.2 Debt securities

The table below presents the Group’s debt securities by asset category and external credit rating issued for each component of business as set out in note 33.1.

As at 31 December 2021	AAA £m	AA+ to AA- £m	A+ to A- £m	BBB+ to BBB- £m	Below BBB- £m	Other £m	Total £m
Government sovereign debt	**4,098**	**11,299**	**1,382**	**1,226**	**1,135**	**340**	**19,480**
With-profits	**2,709**	**6,651**	**1,197**	**1,110**	**1,105**	**201**	**12,973**
Unit-linked	**245**	**1,858**	**164**	**76**	**26**	**3**	**2,372**
Annuity and other long-term business	**1,105**	**2,093**	**21**	**38**	**–**	**136**	**3,393**
Other	**39**	**697**	**–**	**2**	**4**	**–**	**742**
Quasi-sovereign and public sector debt	**509**	**2,605**	**358**	**112**	**47**	**518**	**4,149**
With-profits	**297**	**1,197**	**328**	**110**	**41**	**464**	**2,437**
Unit-linked	**45**	**156**	**21**	**2**	**6**	**4**	**234**
Annuity and other long-term business	**167**	**1,252**	**9**	**–**	**–**	**50**	**1,478**
Corporate debt	**1,938**	**3,842**	**11,751**	**17,450**	**5,353**	**13,314**	**53,648**
With-profits	**1,296**	**2,208**	**8,543**	**13,376**	**4,651**	**6,747**	**36,821**
Unit-linked	**157**	**233**	**1,017**	**1,788**	**519**	**51**	**3,765**
Annuity and other long-term business	**317**	**1,307**	**2,087**	**2,279**	**157**	**6,515**	**12,662**
Other	**168**	**94**	**104**	**7**	**26**	**1**	**400**
Asset-backed securities	**1,312**	**347**	**612**	**270**	**54**	**1,187**	**3,782**
With-profits	**972**	**228**	**299**	**142**	**53**	**1,039**	**2,733**
Unit-linked	**38**	**22**	**18**	**38**	**1**	**11**	**128**
Annuity and other long-term business	**114**	**97**	**295**	**90**	**–**	**137**	**733**
Other	**188**	**–**	**–**	**–**	**–**	**–**	**188**
Total debt securities	**7,857**	**18,093**	**14,103**	**19,058**	**6,589**	**15,359**	**81,059**
With-profits	**5,274**	**10,284**	**10,367**	**14,738**	**5,850**	**8,451**	**54,964**
Unit-linked	**485**	**2,269**	**1,220**	**1,904**	**552**	**69**	**6,499**
Annuity and other long-term business	**1,703**	**4,749**	**2,412**	**2,407**	**157**	**6,838**	**18,266**
Other	**395**	**791**	**104**	**9**	**30**	**1**	**1,330**

33 Risk management and sensitivity analysis continued

As at 31 December 2020	AAA £m	AA+ to AA- £m	A+ to A- £m	BBB+ to BBB- £m	Below BBB- £m	Other £m	Total £m
Government sovereign debt	4,771	7,940	385	1,039	414	3,763	18,312
With-profits	3,252	3,609	380	881	395	3,276	11,793
Unit-linked	156	1,595	4	60	18	456	2,289
Annuity and other long-term business	1,348	2,112	–	97	–	20	3,577
Other	15	624	1	1	1	11	653
Quasi-sovereign and public sector debt	236	2,805	420	160	77	392	4,090
With-profits	59	1,230	300	158	77	339	2,163
Unit-linked	6	127	15	2	–	–	150
Annuity and other long-term business	171	1,448	105	–	–	53	1,777
Corporate debt	2,617	4,259	12,661	18,641	5,340	14,959	58,477
With-profits	1,479	2,440	8,731	13,613	4,265	7,728	38,256
Unit-linked	483	410	1,209	2,566	907	310	5,885
Annuity and other long-term business	591	1,327	2,680	2,460	162	6,894	14,114
Other	64	82	41	2	6	27	222
Asset-backed securities	1,767	593	543	381	52	1,224	4,560
With-profits	1,463	385	301	219	49	1,014	3,431
Unit-linked	32	28	14	71	3	34	182
Annuity and other long-term business	131	180	228	91	–	176	806
Other	141	–	–	–	–	–	141
Total debt securities	9,391	15,597	14,009	20,221	5,883	20,338	85,439
With-profits	6,253	7,664	9,712	14,871	4,786	12,357	55,643
Unit-linked	677	2,160	1,242	2,699	928	800	8,506
Annuity and other long-term business	2,241	5,067	3,013	2,648	162	7,143	20,274
Other	220	706	42	3	7	38	1,016

As at 31 December 2021 corporate debt exposure to banks amounted to £9,666m (2020: £8,389m).

The Group has holdings in asset-backed securities (ABS) which are presented within debt securities on the consolidated statement of financial position. The Group's holdings in ABS, which comprise residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), collateralised debt obligations (CDO) funds and other asset-backed securities are shown within the table above.

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

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

33 Risk management and sensitivity analysis continued

	2020				
As at 31 December	With-profits £m	Unit-linked £m	Annuity and other long-term business £m	Other £m	Total £m
Sovereign debt securities by country:					
United Kingdom	4,437	2,013	1,970	624	9,044
France	10	34	22	–	66
Germany	246	48	137	–	431
Italy	41	2	–	–	43
Spain	16	–	57	–	73
Poland	50	–	–	–	50
Other European Countries	1,234	90	1,043	15	2,382
Total Europe	6,034	2,187	3,229	639	12,089
United States	1,104	8	–	7	1,119
Israel	91	–	20	–	111
Other	4,564	94	328	7	4,993
Total	11,793	2,289	3,577	653	18,312

As at 31 December 2021 Other European Countries included £1,913m (2020: £2,209m) and Other included £1,000m (2020: £914m) of Supranational Government bonds.

33.4.3 De-recognition, collateral and offsetting

Securities lending and repurchase agreements

The Group has entered into securities lending and repurchase agreements whereby blocks of securities are transferred to third parties, primarily major brokerage firms, in exchange for collateral. Typically, the value of collateral assets pledged to the Group in these transactions is in excess of the value of securities transferred, with the excess determined by the quality of the collateral assets granted. Collateral requirements are calculated on a daily basis. The securities lent and securities subject to repurchase agreements are not derecognised from the Group's consolidated statement of financial position. Collateral typically consists of cash, debt securities, equity securities and letters of credit. Cash collateral received is recognised on the consolidated statement of financial position and a financial liability for the obligation for the Group to repay the cash is also recognised. Non-cash collateral received is not recognised on the consolidated statement of financial position. Collateral pledged by the Group under reverse repurchase arrangements, aside from cash, is not derecognised from the consolidated statement of financial position as the risks and rewards are still retained by the Group. Cash collateral pledged is derecognised as it is pledged under right to use by the counterparty and a financial asset is recognised for the obligation for the counterparty to re-pay the cash to the Group.

As at 31 December 2021, the Group had £5,643m (2020: £5,247m) of collateral pledged to the Group under securities lending and repurchase agreements, primarily relating to the With-Profits Fund. The cash and securities collateral accepted under securities lending agreements was £5,021m (2020: £4,910m). As at 31 December 2021, the Group had entered into reverse repurchase transactions under which it purchased securities and had taken on the obligation to resell the securities. The fair value of the collateral held in respect of these transactions was £14,348m (2020: £14,877m).

Collateral and pledges under derivative transactions

At 31 December 2021, the Group had pledged £1,653m (2020: £1,371m) for liabilities and held collateral of £1,775m (2020: £2,875m) in respect of over-the-counter derivative transactions.

These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard securities lending and repurchase agreements.

Other collateral

At 31 December 2021, the Group had pledged collateral of £1,468m (2020: £1,020m) in respect of other transactions. This primarily arises from collateral pledged in relation to consolidated funds held by the With-Profits Fund, in addition to deferred purchase consideration on lifetime (equity release) mortgages.

33 Risk management and sensitivity analysis continued

Offsetting assets and liabilities

The Group's derivative instruments, repurchase agreements and securities lending agreements are subject to master netting arrangements and collateral arrangements. A master netting arrangement with a counterparty creates a right of offset for amounts due to and due from that same counterparty that is enforceable in the event of a default or bankruptcy. The Group recognises amounts subject to master netting arrangements on a gross basis on the consolidated statement of financial position.

The following tables present the gross and net information about the Group's financial instruments subject to master netting arrangements:

		Related amounts not offset in the consolidated statement of financial position			
As at 31 December 2021	Gross amount included in the consolidated statement of financial position £m	Financial instruments £m	Cash collateral £m	Securities collateral £m	Net amount £m
Financial assets:					
Derivative assets	**3,151**	**(1,186)**	**(1,735)**	**(14)**	**216**
Reverse repurchase agreements	**17,458**	**–**	**–**	**(14,324)**	**3,134**
Total financial assets	**20,609**	**(1,186)**	**(1,735)**	**(14,338)**	**3,350**
Financial liabilities:					
Derivative liabilities	**2,290**	**(1,186)**	**(112)**	**(933)**	**59**
Securities lending and repurchase agreements	**884**	**–**	**–**	**(884)**	**–**
Total financial liabilities	**3,174**	**(1,186)**	**(112)**	**(1,817)**	**59**

		Related amounts not offset in the consolidated statement of financial position			
As at 31 December 2020	Gross amount included in the consolidated statement of financial position £m	Financial instruments £m	Cash collateral £m	Securities collateral £m	Net amount £m
Financial assets:					
Derivative assets	5,406	(2,282)	(2,693)	(110)	321
Reverse repurchase agreements	16,467	–	–	(14,762)	1,705
Total financial assets	21,873	(2,282)	(2,693)	(14,872)	2,026
Financial liabilities:					
Derivative liabilities	3,179	(2,282)	(181)	(584)	132
Securities lending and repurchase agreements	659	–	–	(659)	–
Total financial liabilities	3,838	(2,282)	(181)	(1,243)	132

In the tables above, the amounts of assets or liabilities included on the consolidated statement of financial position would be offset first by financial instruments that have the right of offset under master netting or similar arrangements, with any remaining amount reduced by the amount of cash and securities collateral. The actual amount of collateral may be greater than the amounts presented in the tables. Reverse repurchase agreements shown in the tables above are included within deposits on the consolidated statement of financial position.

33 Risk management and sensitivity analysis continued

33.5 Demographic and expense risk

The Group is exposed to significant levels of demographic risk. This arises mainly from the annuity business in the form of longevity risk, which is the risk of unexpected changes in the life expectancy (longevity) of policyholders. If mortality improvement rates significantly exceed the level assumed, the Group's results could be adversely affected. Further to this, any major medical breakthrough (for example, in the treatment of cancer or other life-threatening diseases) that would require the Group to strengthen its longevity assumptions would have an impact on the Group's results.

Longevity risk for both shareholder-backed business and policyholder-backed business has been predominantly managed through:

- regular reviews of best estimate assumptions, supported by detailed assessments of actual mortality experience versus the best estimate assumptions;
- longevity research; and
- longevity reinsurance arrangements.

Other demographic risks such as persistency risk and non-annuitant mortality risk, as well as expense risk, are subject to regular reviews and actions, with frequency and intensity proportionate to the materiality of the risk. Further details of the sensitivity of profit and shareholders' equity to demographic risks are described below by the components of business. The sensitivity of IFRS profit after tax and IFRS shareholders' equity to annuitant mortality and expense risk is provided in Note 33.2.

33.5.1 With-profits business

Mortality and other demographic risks are relatively minor factors in the determination of the policyholder bonus rates. Adverse persistency experience can affect the level of profitability from with-profits contracts, but in any given year the shareholders' share of cost of bonus may only be marginally affected. However, altered persistency trends may affect future expected shareholder transfers.

33.5.2 Unit-linked business

By virtue of the design features of most of the contracts which provide low levels of mortality cover, profit is relatively insensitive to changes in mortality experience. Persistency experience variances can affect the level of profit in the year. The shareholder is also exposed to variances in expenses relative to the charges levied on these products.

33.5.3 Annuity and other long-term business

Profits from shareholder-backed annuity business are most sensitive to the following demographic and expense risks:

- The extent to which changes to the assumed rate of improvements in mortality give rise to changes in the measurement of liabilities;
- The variance between actual and expected mortality experience, and its impact on current mortality assumptions; and
- Changes in maintenance expense levels.

The risk arising from the other long-term business is not significant in the context of the Group's overall liabilities.

33.6 Liquidity risk

The Group is exposed to two types of liquidity risk:

- Treasury liquidity risk is the risk of loss for the Group's business, or of adverse changes in the financial situation, resulting from the Group's inability to generate sufficient cash resources to meet financial obligations (for example, claims, creditors and planned dividends) as they fall due;
- Fund liquidity risk is the risk of being unable to meet liabilities arising from a mismatch in liquidity of the underlying assets and the frequency of liability requirements of the fund.

The Group's IFRS results are indirectly exposed to fund liquidity risk, for example, through reputational damage leading to lower funds under management and lower revenue through charges collected. However, as the effect on the Group's IFRS results is indirect, this risk is not discussed further and the remainder of this section refers to treasury liquidity risk.

Liquidity management in the Group seeks to ensure that, even under adverse conditions, the Group has access to the funds necessary to cover surrenders, withdrawals and maturing liabilities.

Liquidity risk is carefully managed, in particular in relation to: bank balances, cashflow forecasting, appropriate fund management (to ensure that assets are not unduly concentrated in less liquid investments) and detailed cash-flow matching for the annuity business. Specific arrangements are also in place to manage liquidity in the unit-linked funds, particularly property funds where the underlying assets are relatively illiquid.

33 Risk management and sensitivity analysis continued

33.6.1 Contractual maturities of financial liabilities on an undiscounted cash flow basis

The following table sets out the contractual maturities for applicable classes of financial liabilities, excluding derivative liabilities that are separately presented in Section 33.6.2. The financial liabilities are included in the column relating to the contractual maturities at the undiscounted cash flows (including contractual interest payments and expected benefit payments) due to be paid, assuming conditions are consistent with those at the year end.

As at 31 December 2021	Total carrying value £m	1 year or less £m	After 1 year to 5 years £m	After 5 years to 10 years £m	After 10 years to 15 years £m	After 15 years to 20 years £m	Over 20 years £m	No stated maturity £m	Total undis-counted value £m
Financial liabilities:									
Subordinated liabilities and other borrowings	**8,930**	**506**	**1,756**	**746**	**236**	**240**	**6,129**	**97**	**9,710**
Investment contracts	**97,627**	**9,655**	**32,856**	**30,840**	**22,021**	**14,242**	**18,774**	**9,872**	**138,260**
Total	**106,557**	**10,161**	**34,612**	**31,586**	**22,257**	**14,482**	**24,903**	**9,969**	**147,970**

As at 31 December 2020	Total carrying value £m	1 year or less £m	After 1 year to 5 years £m	After 5 years to 10 years £m	After 10 years to 15 years £m	After 15 years to 20 years £m	Over 20 years £m	No stated maturity £m	Total undis-counted value £m
Financial liabilities:									
Subordinated liabilities and other borrowings	8,267	449	1,977	1,021	239	268	5,515	125	9,594
Investment contracts	95,170	9,618	33,513	31,792	22,668	13,966	17,262	11,177	139,996
Total	103,437	10,067	35,490	32,813	22,907	14,234	22,777	11,302	149,590

Most investment contracts have options to surrender early, often subject to surrender or other penalties. Therefore, most contracts can be said to have a contractual maturity of less than one year, but the additional charges and term of the contracts mean surrenders are unlikely to be exercised in practice.

The vast majority of the Group's financial assets are held to back the Group's policyholder liabilities. Although asset/liability matching is an important component of managing policyholder liabilities (both those classified as insurance and those classified as investments), this profile is mainly relevant for managing market risk rather than liquidity risk. Within each business unit this asset/liability matching is performed on a portfolio-by-portfolio basis.

In terms of liquidity risk, a large proportion of the policyholder liabilities contain discretionary surrender values or surrender charges, meaning that many of the Group's liabilities are expected to be held for the long-term. Many of the Group's investment portfolios are in marketable securities, which can therefore be converted quickly to liquid assets. As a result an analysis of the Group's assets by contractual maturity is not considered appropriate to evaluate the nature and extent of the Group's liquidity risk.

33.6.2 Maturity analysis of derivatives

The following table shows the gross and net derivative positions together with the maturity profile of the contractual undiscounted cashflows:

As at 31 December 2021	Total carrying value £m	1 year or less £m	After 1 year to 5 years £m	After 5 years to 10 years £m	After 10 years to 15 years £m	After 15 years to 20 years £m	Over 20 years £m	No stated maturity £m	Total undis-counted value £m
Derivative assets	**3,373**	**354**	**674**	**731**	**674**	**886**	**2,005**	**–**	**5,324**
Derivative liabilities	**2,689**	**611**	**652**	**641**	**657**	**538**	**1,313**	**–**	**4,412**
Net derivative position	**684**	**(257)**	**22**	**90**	**17**	**348**	**692**	**–**	**912**

As at 31 December 2020	Total carrying value £m	1 year or less £m	After 1 year to 5 years £m	After 5 years to 10 years £m	After 10 years to 15 years £m	After 15 years to 20 years £m	Over 20 years £m	No stated maturity £m	Total undis-counted value £m
Derivative assets	5,705	1,134	974	1,051	1,211	1,272	3,554	–	9,196
Derivative liabilities	3,460	283	1,049	880	1,067	797	2,380	–	6,456
Net derivative position	2,245	851	(75)	171	144	475	1,174	–	2,740

33 Risk management and sensitivity analysis continued

33.7 Derivatives and hedging

The Group uses derivatives for the purpose of efficient portfolio management or the reduction in investment risk. In doing so, the Group obtains cost-effective and efficient exposure to various markets and manages exposure to equity, interest rate, currency, credit and other business risks. The Group has opted not to apply hedge accounting to derivatives.

The Group uses various interest rate derivative instruments such as interest rate swaps and swaptions to reduce exposure to interest rate volatility. The Group also uses various currency derivatives in order to limit volatility due to foreign currency exchange rate fluctuations arising on securities denominated in currencies other than pounds sterling.

All over-the-counter derivative transactions are conducted under standardised ISDA (International Swaps and Derivatives Association Inc) master agreements and CSA (Credit Support Annexes). The Group has collateral agreements between the individual entities in the Group, of which the Company is one, and relevant counterparties in place under each of these market master agreements. The Group also has the ability to enter into cleared derivative positions under EMIR (European Market Infrastructure Regulation).

The total fair value balances of derivative assets and liabilities are shown in Note 19.

There are hedging arrangements in place for the with-profits liabilities. In addition to some product-specific arrangements, the main objective of the hedging arrangements is to broadly match a subset of the market-consistent liabilities and hence protect the capital position of the with-profits business against adverse market movements. The actual and required hedging positions are monitored at least monthly and rebalanced if required.

Under Article 11 of the European Market Infrastructure Regulation on derivatives, central counterparties and trade repositories (EMIR) and Commission Delegated Regulation (EU) 2016/2251 supplementing EMIR, market participants transacting in non-cleared OTC derivatives are required to exchange collateral to cover variation and initial margin. However, trades between counterparties belonging to the same group are exempt from these margin requirements subject to certain criteria.

Prudential Capital Plc (Legal Entity Identifier reference (LEI) CHW8NHK268SFPTV63Z64) has entered into such derivative agreements with the following entities. These counterparty pairings meet the criteria to be eligible for intra-group exemptions to the margin requirements:

				As at 31 December 2021	As at 31 December 2020
Counterparty	Legal Entity Identifier	Relationship between parties	Type of exemption	**Aggregate notional of OTC derivatives contract £m**	Aggregate notional of OTC derivatives contract £m
Prudential Lifetime Mortgages Limited	5493001GSK4HF84IOB02	M&G plc is the ultimate Parent Company for both parties	Full	**37**	37
M&G FA Limited	213800TFNC2ZYHSGTN11	M&G plc is the ultimate Parent Company for both parties	Full	**204**	–

33.7.1 Hedges in respect of shareholder transfers arising from the with-profits business

The shareholders' exposure to market risk from with-profits business arises from the shareholder transfers which depend on investment return of the funds. These shareholder transfers, while smoothed, are particularly exposed to equity risk.

The Group has entered into a partial equity hedge of the shareholder transfers expected to emerge from the WPSF in order to mitigate this risk. The effect for the year ended 31 December 2021 was an unrealised loss of £227m (2020: unrealised gain of £214m) and a realised loss of £81m (2020: realised loss of £36m).

PAC's shareholder fund has also entered into a risk management arrangement with the WPSF in relation to the shareholder transfers expected to emerge from the WPSF, specifically with regard to the PruFund new business written during 2018 to 2020. This arrangement was designed to protect the shareholders against extremely weak market returns. This arrangement resulted in a £36m unrealised loss for the year ended 31 December 2021 (2020: unrealised loss of £26m).

33.7.2 Other shareholder hedging arrangements

The Group's shareholder fund has purchased interest rate swap instruments to protect the capital position against interest rate movements. For the year ended 31 December 2021, these instruments resulted in an unrealised loss of £86m (2020: unrealised gain of £94m) and a realised loss of £28m (2020: realised gain of £17m).

34 Contingencies and related obligations

34.1 Litigation, tax and regulatory matters

In addition to the matters set out in Note 29 regarding regulatory provisions in relation to annuity sales practices, and in Note 9.3 regarding the portfolio dividend tax litigation, the Group is involved in various litigation and regulatory issues. While the outcome of such litigation and regulatory issues cannot be predicted with certainty, the Directors believe that their ultimate outcome will not have a material adverse effect on the Group's financial condition, results of operations, or cash flows.

34.2 Guarantees

Guarantee funds provide for payments to be made to policyholders on behalf of insolvent life insurance companies and are financed by payments levied 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 PPMSA in July 2021, M&G Group Limited provided a guarantee in respect of an existing loan facility between Thesele, the seller of PPMSA, and Nedbank, a third party bank amounting to ZAR 220m. The guarantee is secured on 7% of the shares that Thesele retains in PPMSA.

M&G Group Regulated Entity Holding Company Limited is guarantor for the obligations of Prudential UK Services Limited, PGDS (UK One) Limited, and Prudential Distribution Limited to make payments under the Scottish Amicable Staff Pension Scheme.

The Group has also provided other guarantees and commitments to third parties entered into in the normal course of business, but the Group does not consider that the amounts involved are significant.

34.3 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, or otherwise not able to meet its obligations to treat the with-profits policyholders fairly, it might become necessary to restrict the annual distribution to shareholders or to contribute shareholders' funds to the with-profits sub-funds to provide financial support.

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

- The With-Profits Fund contributed to the costs of establishing the Polish branch of PAC, and receives repayment through income from charges levied on the business. There is an obligation on the shareholders to ensure that the With-Profits Fund will be repaid in full with interest, and an amount is included in Insurance contract liabilities for the estimated cost to the shareholder of any shortfall at end of the term of the agreement.
- Part of the acquisition costs incurred in the early years of M&G Wealth Advice Limited (formerly Prudential Financial Planning Ltd) were funded by the With-Profits Fund. In return, M&G Wealth Advice Limited is required to deliver cost savings to the With-Profits Fund. In the event of closure of M&G Wealth Advice or, the cost savings not being delivered and M&G Wealth Advice stops writing new business, the shareholder will reimburse the With-Profits Fund for any remaining shortfall. The time period for repayment is not defined.
- 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 is currently undertaking a project to rationalise fund structures (The Target Investment Model programme). This will mainly be achieved by combining existing, smaller funds with the main With-Profits asset share fund, and is expected to yield various benefits for the business. 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.
- PAC has priced new with-profits business on a basis that is expected to be financially self-supporting or, where this has not been the case, the shareholder is required to cover the cost (known as the New Business Supportability Test, 'NBST').

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

34.3.1 Pension mis-selling review

The Pensions mis-selling review covers customers who were sold personal pensions between 29 April 1988 and 30 June 1994, and who were advised to transfer out, not join, or opt out of their employer's Defined Benefit Pension Scheme. Currently, a provision amounting to £296m (2020: £303m) as at 31 December 2021 is being held in relation to this within insurance contract liabilities. During the initial review, some customers were issued with guarantees that redress will be calculated on retirement or transfer of their policies. The provision continues to cover these customers.

34 Contingencies and related obligations continued

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

The key assumptions underlying the provisions are:

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

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

		As at 31 December	
Assumption	Change in assumption	**2021 £m**	2020 £m
Average cost of redress	increase/decrease by 10%	**+/-10**	+/-10
Reserve rate for soft closed cases	increase/decrease by 10%	**+/- 30**	+/- 30

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

34.3.2 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 26.1 for further details on these options and guarantees.

35 Commitments

The Group leases various offices to conduct its business. In line with the requirements of IFRS 16, the Group has recognised a lease liability in respect of these leases representing the obligation to make future lease payments. For further information on the lease liability see Note 28.

In addition, the Group has provided, from time to time, certain guarantees and commitments to third parties including funding the purchase or development of land and buildings and other related matters. The contractual obligations to purchase or develop investment property as at 31 December 2021 were £813m (2020: £1,462m).

As at 31 December 2021, the Group had undrawn commitments of £3,246m to third parties (2020: £3,144m) of which £1,676m (2020: £965m) was committed by its private equity and infrastructure funds. These commitments were entered into in the normal course of business and no material adverse impact on the operations is expected to arise.

36 Related party transactions

The Group and its related parties comprise members of the M&G plc Group, as well as the Group's joint ventures and associates, and any entity controlled by those parties.

36.1 Transactions with the Group's joint ventures and associates

The Group received dividends and interest of £21m for the year ended 31 December 2021 (2020: £21m) and made additional capital injections of £nil in the year ended 31 December 2021 (2020: £3m) into joint ventures or associates accounted for using the equity method. In addition, the Group had balances due from joint ventures or associates accounted for using the equity method of £105m as at 31 December 2021 (2020: £133m) and balances due to joint ventures or associates accounted for using the equity method of £nil as at 31 December 2021 (2020: £nil). As stated in note 2, PPMSA was no longer accounted for as an associate from 4 July 2021 following the acquisition of a controlling interest.

Furthermore, in the normal course of business a number of investments into and divestments from investment vehicles managed by the Group were made. This includes investment vehicles which are classified as investments in associates and joint ventures measured at FVTPL. The Group entities paid amounts for the issue of shares or units and received amounts for the cancellation of shares or units. These transactions are not considered to be material to the Group.

36 Related party transactions continued

36.2 Compensation of key management personnel

The members of the Board and the Group Executive Committee are deemed to have power to influence the direction, planning and control the activities of the Group, and hence are also considered to be key management personnel.

Key management personnel of the Company may from time to time purchase insurance, asset management or annuity products marketed by the Group companies in the ordinary course of business on substantially the same terms as those prevailing at the time for comparable transactions with other persons.

Other transactions with key management personnel are not deemed to be significant either by virtue of their size or in the context of the key management personnel's respective financial positions. All of these transactions are on terms broadly equivalent to those that prevail in arm's length transactions.

The summary of compensation of key management personnel is as follows:

For the year ended 31 December	**2021 £m**	2020 £m
Salaries and short-term benefits	**12.2**	11.7
Post-employment benefits	**0.6**	0.6
Share-based payments	**7.2**	4.0
Total	**20.0**	16.3

Information concerning individual Directors' emoluments, interests and transactions are provided in the single figure tables in the Remuneration Report on pages 130 and 137.

37 Capital management

37.1 Capital regulations of entities within the Group

The Group is regulated under Solvency II and supervised as an insurance group by the Prudential Regulation Authority. The Group manages Solvency II own funds as its measure of capital. As at 31 December 2021 estimated and unaudited Group Solvency II own funds are £15.3bn (2020: £15.6bn).

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

The regulated entities within the Group are also subject to local capital regulations. Capital is actively managed to ensure that local regulatory requirements are met. The main regulated entities in the Group and the regulatory framework to which they must adhere are listed below:

Entity	Main activity	Regulatory framework
M&G plc	Insurance	Solvency II
The Prudential Assurance Company Limited	Insurance	Solvency II
Prudential International Assurance plc	Insurance	Solvency II
Prudential Pensions Limited	Insurance	Solvency II
M&G Group Limited (including subsidiaries)	Investment management	BIPRU[i]
Investment Funds Direct Limited	Investment services	IFPRU[ii]

i Prudential Sourcebook for Banks, Building Societies and Investment Firms.

ii Prudential Sourcebook for Investment Firms.

All Group entities that were subject to externally imposed regulatory capital requirements complied with them throughout the year.

37 Capital management continued

37.2 Group capital position

37.2.1 Regulatory capital position

The regulatory capital position of the Group takes into account all Group exposures, including that of the With-Profits Fund. This view of capital recognises the ring-fenced nature of the With-Profits Fund, and on consolidation surplus in the fund can only be recognised to the level of associated SCR with any excess surplus being eliminated as a ring-fenced fund restriction, effectively restricting the solvency coverage ratio of the With-Profits Fund to 100%. As such, the combined "regulatory" solvency coverage ratio is highly resilient to movements in the With-Profits Fund's own funds.

The estimated and unaudited Solvency II capital position for the Group as at 31 December 2021 and the position as at 31 December 2020 is shown below:

As at 31 December	2021 £bn	2020 £bn
Solvency II own funds	**15.3**	15.5
Solvency II SCR	**(9.1)**	(10.7)
Solvency II surplus	**6.2**	4.8
Solvency II coverage ratio[i]	**168%**	144%

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

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 2020, the recalculated transitional measures did not align to the latest approved regulatory position and therefore the estimated and unaudited Solvency II capital position differed to 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 has been approved for the reporting date and the positions are aligned.

37.2.2 Shareholder 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 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 of Supplementary financial Information.

The estimated and unaudited shareholder Solvency II capital position for the Group as at 31 December 2021 and the position as at 31 December 2020 is shown below.

As at 31 December	2021 £bn	2020 £bn
Shareholder Solvency II own funds	**11.4**	10.6
Shareholder Solvency II SCR	**(5.2)**	(5.8)
Solvency II surplus	**6.2**	4.8
Shareholder Solvency II coverage ratio[i]	**218%**	182%

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

37.3 Meeting of capital management objectives

The Group manages its capital on a Solvency II basis to ensure that sufficient own funds are available on an ongoing basis to meet regulatory capital requirements. This is achieved by targeting a capital buffer significantly in excess of regulatory capital requirements. This buffer is intended to absorb the impact of stressed market conditions and thus make the Solvency II balance sheet under the regulatory view resilient to stresses that affect the Group's business.

A range of stress and scenario testing is carried out across the business, including certain scenarios mandated by the regulator. The sensitivity of liabilities and other components of total capital vary, depending upon the type of business concerned, and this influences the approach to asset/liability management.

In addition, projections are performed to understand how the own funds and capital position is expected to develop and how this might be affected by adverse events taking place. Informed by the results of these projections there are a number of actions available to management to strengthen the own funds position.

As well as holding sufficient capital to meet regulatory requirements, the Group also closely manages the cash it holds so that it can:

- maintain flexibility, fund new opportunities and absorb shock events;
- meet liabilities to policyholders and other obligations;
- fund dividends; and
- cover central costs and debt payments.

38 Share-based payments

The Group operates various share-based payment schemes that award M&G plc shares to participants upon meeting the required vesting conditions. Details of those schemes are stated below:

38.1 Description of the plans

Discretionary schemes initiated prior to demerger:

Scheme	Description
Long-term Incentive Plan (LTIP)	The LTIP is a conditional share plan: the shares awarded will ordinarily be released to participants after three years to the extent that performance conditions have been met. If performance conditions are not achieved in full, the unvested portion of any award lapses. The performance conditions attached to LTIP awards include market performance conditions; Relative Total Shareholder Return (TSR); and other non-market conditions, including measures linked to profit. The performance conditions attached to each award are dependent on the role of the participants. Threshold and maximum achievement levels will be set at the beginning of the performance periods in line with the business plan. The last of these awards will vest in 2022.
Annual Incentive Plan (AIP)	Certain senior executives participate in the AIP where a portion of the individual's bonus is delivered in the form of shares that are released after three years. There are no performance conditions associated with the plan. The last of these awards will vest in 2022.
Group Deferred Bonus Plan (GDBP)	Under these plans, part of the participant's annual bonus is paid in the form of a share award that vests after three years. Other than the service condition, there are no other performance conditions associated with this plan. The last of these awards will vest in 2022.
Restricted Share Plan (RSP)	Awards under this plan are discretionary and ad-hoc, and the vesting of awards may be subject to performance conditions. These awards may be retention awards, new joiner awards and promotion related awards. The last of these awards will vest in 2023.

Prior to demerger, all discretionary schemes mentioned above were based on Prudential plc awards. At the point of demerger and subsequent listing of M&G plc, all outstanding discretionary awards were replaced with equivalent awards based on M&G plc shares. The scheme rules for the awards remain the same in principle, except for the LTIP awards, for which the relevant metrics are based on M&G plc as opposed to Prudential plc performance.

In accordance with IFRS 2, the replacement awards were accounted for as a modification of the previous scheme and the expense in relation to the scheme has continued to be recorded over the remaining vesting period.

Discretionary schemes initiated post demerger:

Scheme	Description
Performance Share Plan (PSP)	The PSP is a conditional share plan: the shares awarded will ordinarily be released to participants after a predetermined period, usually three years, to the extent that performance conditions have been met. If performance conditions are not achieved in full, the unvested portion of any award lapses. The performance conditions attached to PSP awards include market performance conditions; Relative Total Shareholder Return (TSR); and other non-market conditions, including capital generation measures. The performance conditions attached to each award are dependent on the role of the participants. Threshold and maximum achievement levels will be set at the beginning of the performance periods in line with the business plan.
Deferred Incentive Plan (DIP)	Under these plans, part of the participant's Annual Bonus is paid in the form of a share award that vests after three or four years. Other than the service condition, there are no other performance conditions associated with this plan.

Approved schemes:

Share scheme	Description
Save As You Earn (SAYE) plans	The Group operates SAYE plans, which allow eligible employees the opportunity to save a monthly amount from their salaries, over either a three or five-year period, which can be used to purchase shares in M&G plc at a predetermined price subject to the employee remaining in employment for three years after the grant date of the options and satisfying the monthly savings requirement.
Share Incentive Plan (SIP): free shares	In addition, to celebrate the demerger, all eligible employees were provided with 920 M&G plc shares with a value of £2,000 at the date of grant subject to a two-year service condition. The awards have fully vested during the year for employees who met the relevant vesting conditions.

All approved schemes are accounted for as equity-settled as the awards are settled in M&G plc shares.

38 Share-based payments continued

38.2 Outstanding options and awards

Movements in outstanding options and awards under the Group's share-based compensation are as follows:

	2021	
	Outstanding options under SAYE schemes	**Awards outstanding under incentive plans**
Outstanding as at 1 January	**23,673,199**	**77,011,381**
Granted	**3,147,134**	**24,749,795**
Exercised	**(480,465)**	**(13,589,785)**
Forfeited/Expired	**(3,040,469)**	**(5,279,011)**
Outstanding at 31 December	**23,299,399**	**82,892,380**
Options immediately exercisable at 31 December	**137,047**	**21,831**

	2020	
	Outstanding options under SAYE schemes	Awards outstanding under incentive plans
Outstanding as at 21 October	12,978,387	36,161,940
Granted	19,045,436	50,500,051
Exercised	–	(6,535,481)
Forfeited/Expired	(8,350,624)	(3,115,129)
Outstanding at 31 December	23,673,199	77,011,381
Options immediately exercisable at 31 December	376,435	1,056

The following tables provide a summary of the range of exercise prices for the SAYE options. The awards under the other schemes do not have an exercise price:

	2021			
	Number outstanding	**Weighted average remaining contractual life (years)**	**Weighted average exercise price (£)**	**Number exercisable**
Between £1 and £2	**23,299,399**	**2.33**	**1.43**	**137,047**

	2020			
	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (£)	Number exercisable
Between £1 and £2	23,673,199	3.19	1.42	376,435

38 Share-based payments continued

38.3 Fair value of options and awards

The fair value of all awards is based on the M&G plc share price at the date of grant, except for the following:

- Awards with market performance conditions based on Total Shareholder Returns ("TSR awards") these include the LTIP TSR awards granted in 2019 and certain PSP awards granted in 2020 & 2021;
- SAYE options.

The determination of the fair value of these awards requires the use of various assumptions which are disclosed below:

	Awards granted in 2021		Awards granted in 2020	
	PSP TSR award	**SAYE options**	PSP TSR award	SAYE options
Dividend yield (%)	**n/a**	**9.08**	n/a	11.14
Expected pay-off (%)	**41.67**	**n/a**	n/a	n/a
Expected volatility (%)	**n/a**	**30.17**	45.00	33.10
Risk-free interest rate (%)	**n/a**	**0.88**	0.49	0.13
Expected option life (years)	**n/a**	**3.66**	n/a	3.65
Weighted average exercise price (£)	**n/a**	**1.64**	n/a	1.29
Weighted average share price at grant date (£)	**2.09**	**2.04**	1.09	1.61
Weighted average fair value at grant date (£)	**1.11**	**0.30**	0.15	0.21

The Group uses the Black-Scholes model to value the SAYE options. In determining the fair value of options granted, the historic volatility of the share price of suitable peers and a risk-free rate determined by reference to swap rates was also considered.

38.4 Share-based payment expense charged to the consolidated income statement

Total expenses recognised in the year in the consolidated financial statements relating to equity-settled share-based compensation as at 31 December 2021 was £40m (2020: £51m). The Group has no outstanding liabilities at the year end relating to awards which are settled in cash.

39 Post balance sheet events

On 6 January 2022, the Group, via M&G Group Regulated Entity Holding Company Limited acquired a 100% holding in Clear View Assured Limited, the controlling Parent Company of Sandringham Financial Partners Limited (''Sandringham'') a fast-growing provider of independent financial advice. From 6 January 2022 the results of Sandringham and Clear View Assured Limited will be consolidated in the Group's financial statements.

In addition, on 27 January 2022, the Group, agreed to acquire a controlling stake in responsAbility Investments AG (''responsAbility''), a leader in impact investing focused on private debt and private equity across emerging markets, subject to regulatory approvals. The Group will initially acquire approximately 90% of the issued share capital of the company and expects to acquire the remaining 10% in due course. Subject to all conditions necessary for the transaction to be executed being met, the Group will consolidate the results of responsAbility from the acquisition date.

In addition to the two acquisitions set out above:

- In January the Group announced that it is partnering with Moneyfarm, a leading digital investment specialist, to provide direct investment services to UK consumers and is investing a minority stake in MFM Holding Limited; and
- In February the Group acquired the investment manager TCF Fund Managers LLP to become a provider of model portfolio services.

The expected initial financial outlay for all of the investments set out above is around £260m subject to foreign exchange and pre-closing acquiree performance.

On 25 February 2022, the With-Profits Fund declared a distribution of £3bn to the policyholders comprised of the annual with-profits bonus declaration, and an extra distribution to eligible policyholders.

In addition, we have announced our intention to return £500m to shareholders by way of a share buy-back programme, which is expected to start shortly and complete within 12 months.

40 Related undertakings

In accordance with Section 409 of the Companies Act 2006, a list of the Group's subsidiaries, joint ventures, associates and significant holdings (being holdings of more than 20%), along with the classes of shares held, the registered office address and the country of incorporation and the effective percentage of equity owned at 31 December 2021 is disclosed below.

The definitions of a subsidiary undertaking, joint venture and associate in accordance with the Companies Act 2006 are different from the definition under IFRS. As a result, the related undertakings included within the list below may not be the same as the undertakings consolidated in the Group IFRS statements. The Group's consolidation policy is described in Note 1.5.

Direct subsidiary undertakings of the Parent Company, M&G plc (shares held directly or via nominees)

Key to classes of shares held: Limited by guarantee (LBG), Limited partnership interest (LPI), Ordinary shares (OS), Preference shares (PS), Units (U).

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G Group Regulated Entity Holding Company Limited (formerly known as Pru Limited and now a direct subsidiary of M&G plc)	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Corporate Holdings Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Capital Holding Company Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Capital Public Limited Company	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Financial Services Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Property Services Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK

40 Related undertakings continued

Other subsidiaries, joint ventures, associates and significant holdings of the Group (no shares held directly by the Parent Company, M&G plc or its nominees)

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Aldwych LP	LPI	100%	1209 Orange Street, Wilmington, Delaware 19801
ANRP II (AIV VI FC), L.P.	LPI	43%	Cayman Corporate Centre, 27 Hospital Road, George Town, KY 9008, Cayman Islands
BWAT Retail Nominee (1) Limited	OS	50%	10 Fenchurch Avenue, London, EC3M 5AG, UK
BWAT Retail Nominee (2) Limited	OS	50%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Canada Property (Trustee) No 1 Limited	OS	100%	180 Dundas Street West, Toronto, M5G 1Z8, Canada
Canada Property Holdings Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Cardinal Distribution Park Management Limited	OS	66%	5th Floor Cavendish House, 39 Waterloo Street, Birmingham, B2 5PP, UK
Carraway Guildford (Nominee A) Limited	OS	100%	IFC 5, St Helier, JE1 1ST, Jersey
Carraway Guildford (Nominee B) Limited	OS	100%	IFC 5, St Helier, JE1 1ST, Jersey
Carraway Guildford General Partner Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Carraway Guildford Investments Unit Trust	OS	100%	13 Castle Street, St Helier, JE4 5UT, Jersey
Carraway Guildford Limited Partnership	LPI	50%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Centaurus Retail LLP	LPI	50%	40 Broadway, London, SW1H 0BU, UK
Centre Capital Non-Qualified Investors IV AIV-ELS, L.P.	LPI	88%	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE, 19808, United States
Centre Capital Non-Qualified Investors IV, L.P.	LPI	63%	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE, 19808, United States
Centre Capital Non-Qualified Investors V AIV-ELS LP	LPI	58%	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE, 19808, United States
Centre Capital Non-Qualified Investors V LP	LPI	61%	Corporation Service Company, 2711 Centerville Rd., Suite 400, Wilmington, DE, 19808, United States
CJPT Real Estate Inc.	OS	100%	180 Dundas Street West, Toronto, M5G 1Z8, Canada
CJPT Real Estate No. 1 Trust	U	100%	180 Dundas Street West, Toronto, M5G 1Z8, Canada
CJPT Real Estate No. 2 Trust	U	100%	180 Dundas Street West, Toronto, M5G 1Z8, Canada
Cribbs Causeway JV Limited	OS	50%	40 Broadway, London, SW1H 0BT, UK
Cribbs Causeway Merchants Association Limited	LBG	20%	The Mall at Cribbs Causeway, Bristol, BS34 5DG, UK
Cribbs Mall Nominee (1) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Debt Investments Opportunities IV	U	25%	Fourth Floor, 76 Lower Baggot Street, Dublin 2, Ireland
Digital Infrastructure Investment Partners GP LLP	LPI	65%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Digital Infrastructure Investment Partners GP1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Digital Infrastructure Investment Partners SLP GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Digital Infrastructure Investment Partners SLP GP1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Digital Infrastructure Investment Partners SLP GP2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Eastspring Investments – Asian Local Bond Fund	U	97%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments – Asian Total Return Bond Fund	U	100%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments – Global Emerging Markets Customized Equity Fund	U	65%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments – Global Emerging Markets Dynamic Fund	U	58%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments – Japan Smaller Companies Fund	U	65%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments Asian Bond Fund	U	44%	26, Boulevard Royal, L-2449, Luxembourg

40 Related undertakings continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Eastspring Investments SICAV-FIS Africa Equity Fund	U	100%	26, Boulevard Royal, L-2449, Luxembourg
Eastsprings – China Bond Fund	U	100%	26, Boulevard Royal, L-2449, Luxembourg
Edger Investments Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
EF IV Schoolhill GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Elle 14 S.a.r.l company	OS	45%	Via Alessandro Manzoni 38, Milan, 20121, Italy
Embankment GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Embankment Nominee 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Embankment Nominee 2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Episode Inc	LPI	93%	c/o Intertrust Cayman Islands, 190 Elgin Avenue, George Town, Grand Cayman, KY1-9005, Cayman Islands
Falan GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Fashion Square ECO LP (In liquidation)	LPI	50%	1209 Orange Street, Wilmington, DE 19801, USA
Folios III Designated Activity Company	OS	49%	Fourth Floor, 76 Lower Baggot Street, Dublin 2, Ireland
Folios IV Designated Activity Company	OS	66%	Fourth Floor, 76 Lower Baggot Street, Dublin 2, Ireland
Fort Kinnaird GP Limited	OS	50%	York House, 45 Seymour Street, London, W1H 7LX, UK
Fort Kinnaird Limited Partnership	LPI	50%	York House, 45 Seymour Street, London, W1H 7LX, UK
Foudry Properties Limited	OS	50%	Clearwater Court, Vastern Road, Reading RG1 8DB, UK
Fundsdirect ISA Nominees Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Fundsdirect Nominees Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Genny GP 1 LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Genny GP 2 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Genny GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
George Digital GP 1 LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
George Digital GP 2 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
George Digital GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
GGE GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Green GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Greenpark (Reading) General Partner Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
GS R100 GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Harben Finance 2017-1 PLC	U	50%	35 Great St. Helen's, London, EC3A 6AP, UK
HCR Canary Fund	LPI	99%	30 Atlantic Street, Suite 600, Stamford, CT 06901
IFDL Personal Pensions Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
IGP Realisations I GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (AIRI) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK

40 Related undertakings continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Infracapital (Belmond) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Bio) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Churchill) GP 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital (Churchill) GP LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital (GC) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Gigaclear) GP 1 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Gigaclear) GP 2 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Gigaclear) GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (IT PPP) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Leo) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Novos) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Sense) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (TLSB) GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (TLSB) SLP LP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital DF II GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital DF II Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Employee Feeder GP 1 LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Employee Feeder GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital F1 GP2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital F2 GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital F2 GP1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital GP 1 LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital GP 2 LLP	LPI	100%	Unit 2, Spinnaker Court, 1c Becketts Place, Hampton Wick, Kingston upon Thames, KT1 4EQ, UK
Infracapital GP II Limited	OS	100%	Unit 2, Spinnaker Court, 1c Becketts Place, Hampton Wick, Kingston upon Thames, KT1 4EQ, UK
Infracapital GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Greenfield DF GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners 1 SLP GP1 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners 1 SLP GP2 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I Employee Feeder LP	LPI	76%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK

40 Related undertakings continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Infracapital Greenfield Partners I GP2 Limited	OS	100%	Unit 2, Spinnaker Court, 1c Becketts Place, Hampton Wick, Kingston upon Thames, Surrey, KT1 4EQ, UK
Infracapital Greenfield Partners I LP	LPI	22%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Greenfield Partners I SLP EF GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I SLP LP	LPI	36%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I SLP2 LP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I Subholdings GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners II GP S.à r.l	OS	100%	6, rue Eugène Ruppert, L-2453, Luxembourg
Infracapital Greenfield Partners II Subholdings (Euro) GP LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Greenfield Partners II Subholdings (Sterling) GP LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Greenfield Partners II Subholdings GP1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Greenfield Partners II Subholdings GP2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Partners II LP	LPI	26%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Partners II Subholdings GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Partners III GP S.à r.l	OS	100%	6, rue Eugène Ruppert, L-2453, Luxembourg
Infracapital Partners III Subholdings (Euro) GP LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Partners III Subholdings (Sterling) GP LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Partners III Subholdings GP1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Partners III Subholdings GP2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Partners LP	LPI	33%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Infracapital Sisu GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital SLP II LP	LPI	40%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital SLP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Innisfree M&G PPP LLP	LPI	35%	Boundary House, 91-93 Charterhouse Street, London, EC1M 6HR, UK
Invesco Managed Growth Fund (UK)	U	22%	Perpetual Park Drive, Henley-on-Thames, Oxfordshire RG9 1HH, UK
Investment Funds Direct Group Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Investment Funds Direct Holdings Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Investment Funds Direct Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Kiskadee Latitude Fund Limited	OS	95%	c/o Horseshoe Fund Services Ltd., Wessex House, 3rd Floor, 45 Reid Street, Hamilton, HM 12, Bermuda
Leadenhall Unit Trust	OS	100%	IFC 5, St Helier, JE1 1ST, Jersey
Lion Credit Opportunity Fund Public Limited Company – Credit Opportunity Fund XV	U	100%	53 Merrion Square South, Dublin 2, D02 PR63, Ireland
London Green Investments II SLP GP1 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
London Green Investments II SLP GP2 Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK

40 Related undertakings continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
London Green Investments II SLP1 Employee Feeder GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
London Green Investments II SLP2 GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
London Stone Investments F3 Employee Feeder GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
London Stone Investments F3 I Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
London Stone Investments F3 II Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
London Stone Investments F3 SP GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G (1) GSAM GLOBAL EMERGING MARKETS EQUITY FD	U	99%	M&G Luxembourg S.A., 16 Boulevard Royal, L-2449, Luxembourg
M&G (1) ASIA PACIFIC EX JAPAN EQUITY FUND	U	96%	M&G Luxembourg S.A., 16 Boulevard Royal, L-2449, Luxembourg
M&G (1) BLACKROCK ASIA PACIFIC (EX JPN) EQ FD	U	100%	M&G Luxembourg S.A., 16 Boulevard Royal, L-2449, Luxembourg
M&G (1) BLACKROCK EMERGING MARKETS EQ FD	U	100%	M&G Luxembourg S.A., 16 Boulevard Royal, L-2449, Luxembourg
M&G (1) MFS GLOBAL EMERGING MARKETS EQUITY FD	U	99%	M&G Luxembourg S.A., 16 Boulevard Royal, L-2449, Luxembourg
M&G (1) STERLING INVESTMENT GRADE CORP BOND FD	U	88%	M&G Luxembourg S.A., 16 Boulevard Royal, L-2449, Luxembourg
M&G (1) WELLINGTON IMPACT BOND FUND	U	100%	M&G Luxembourg S.A., 16 Boulevard Royal, L-2449, Luxembourg
M&G (Guernsey) Limited	OS	100%	Dorey Court, Admiral Park, St Peter Port, GY1 2HT, Guernsey
M&G (Lux) Emerging Markets Corporate ESG Bond Fund	U	55%	49, Avenue J.F. Kennedy, L – 1855 Luxembourg
M&G (Lux) Global Enhanced Equity Premia Fund	U	96%	49, Avenue J.F. Kennedy, L – 1855 Luxembourg
M&G (Lux) Managed Cautious (Euro) Fund	U	100%	M&G Lux S.A. 16 boulevard Royal L- 2449 Luxembourg.
M&G (Lux) Managed Growth (Euro) Fund	U	100%	M&G Lux S.A. 16 boulevard Royal L- 2449 Luxembourg.
M&G (Lux) Reserved Investment Fund (2), SCA SICAV-RAIF	LPI	100%	16, boulevard Royal, L – 2449 Luxembourg
M&G (Lux) Reserved Investment Funds (2) GP Sarl	OS	100%	16, boulevard Royal, L – 2449 Luxembourg
M&G ACS BLACKROCK EUROPE EX UK EQUITY FUND	U	100%	M&G Securities Limited, 10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G ACS BLACKROCK JAPAN EQUITY FUND	U	100%	M&G Securities Limited, 10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G ACS BLACKROCK UK ALL SHARE EQUITY FUND	U	100%	M&G Securities Limited, 10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G ACS BLACKROCK US EQUITY FUND	U	100%	M&G Securities Limited, 10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G ACS CANADA INDEX FUND	U	100%	M&G Securities Limited, 10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G ACS China Equity Fund GBP	U	98%	M&G Securities Limited, 10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G ACS CHINA FUND	U	98%	M&G Securities Limited, 10 Fenchurch Avenue, London, EC3M 5AG, UK

40 Related undertakings continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G ACS EARNEST PARTNERS US SMALL CAP VALUE FD	U	100%	M&G Securities Limited, 10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G ACS GRANAHAN US SMALL CAP GROWTH FUND	U	100%	M&G Securities Limited, 10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G ACS Japan Equity Fund	U	99%	M&G Securities Limited, 10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G ACS UK 200 INDEX FUND	U	96%	M&G Securities Limited, 10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G ACS UK ALL SHARE INDEX FUND	U	96%	M&G Securities Limited, 10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G ACS UK LISTED EQUITY FUND	U	96%	M&G Securities Limited, 10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G ACS UK LISTED MID CAP EQUITY FUND	U	99%	M&G Securities Limited, 10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Alternatives CV SCSp	LPI	100%	8, rue Lou Hemmer, L – 1748 Senningerberg
M&G Alternatives GP Sarl	OS	100%	8, rue Lou Hemmer, L-1748 Findel
M&G Alternatives Investment Management Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Alternatives, SCSp – RAIF – 2020 Asian PE Fund	LPI	100%	8, rue Lou Hemmer, L-1748, Senningerberg, Grand Duchy of Luxembourg
M&G Alternatives, SCSp – RAIF – 2020 European PE Fund	LPI	100%	8, rue Lou Hemmer, L-1748, Senningerberg, Grand Duchy of Luxembourg
M&G Alternatives, SCSp – RAIF – 2020 PE Co-investment Fund	LPI	100%	8, rue Lou Hemmer, L-1748, Senningerberg, Grand Duchy of Luxembourg
M&G Alternatives, SCSp – RAIF – 2021 North American Fund	LPI	100%	8, rue Lou Hemmer, L-1748, Senningerberg, Grand Duchy of Luxembourg
M&G Alternatives, SCSp – RAIF – 2021 PE Impact Fund	LPI	100%	8, rue Lou Hemmer, L-1748, Senningerberg, Grand Duchy of Luxembourg
M&G Asia Property Fund	OS	46%	16, Boulevard Royal, L-2449, Luxembourg
M&G Better Health Solutions Fund	U	97%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Climate Solutions Fund	U	59%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Corporate Holdings Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Corporate Services Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Credit Income Investment Trust plc	OS	22%	Beaufort House, 51 New North Road, Exeter, EX4 4EP, UK
M&G Dividend Fund	U	53%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Emerging Markets Monthly Income Fund	U	93%	10 Fenchurch Avenue, London, EC3M 5AG
M&G European High Yield Credit Investment Fund	U	23%	80, route d'Esch, L-1470, Luxembourg
M&G European Property Fund SICAV-FIS	OS	39%	16 Boulevard Royal, L-2449, Luxembourg
M&G FA Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G FEEDER PROPERTY PORTFOLIO	U	41%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Financial Services Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Founders 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G General Partner Inc.	OS	100%	190 Elgin Avenue, George Town, Grand Cayman, KYI-9005, Cayman Islands
M&G Gilt & Fixed Interest Income Fund	U	64%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Global High Yield Bond	U	42%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Global High Yield ESG Bond Fund	U	42%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Global Services Private Limited	OS	100%	Prudential House, Mumbai, India
M&G Group Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK

40 Related undertakings continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G Group Regulated Entity Holding Company Limited (formerly known as Pru Limited and now a direct subsidiary of M&G plc)	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Group PCC Limited	OS	100%	PO Box 34, St Martin's House, St Peter Port, GY1 4AU, Guernsey
M&G IMPPP 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G International Investments Nominees Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G International Investments S.A.	OS	100%	16, Boulevard Royal, L-2449, Luxembourg
M&G International Investments Switzerland AG	OS	100%	Talstrasse 66, 8001 Zurich, Switzerland
M&G Investment Funds (10) – M&G Positive Impact Fund	U	28%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (4) – M&G Episode Allocation Fund	U	36%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Funds (7) – M&G Global Convertibles Fund	U	63%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Management Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Investment Managers (Pty) Limited	OS	100%	Protea Place, 40 Dreyer Street, Claremont, 7708, South Africa
M&G Investments (Americas) Inc.	OS	100%	251 Little Falls Drive, Wilmington, DE, 19801, USA
M&G Investments (Australia) Pty Ltd	OS	100%	Level 6, 60 Martin Place, Sydney NSW 2000, Australia
M&G Investments (Hong Kong) Limited	OS	100%	6th Floor, Alexander House, 18 Chater Road, Central, Hong Kong
M&G Investments (Namibia) (Pty) Limited	OS	75%	Unit 3, 2nd Floor, Ausspann Plaza, Dr Agostinho Neto Road, Private Bag 12012, Ausspannplatz, Windhoek, Namibia
M&G Investments (Singapore) Pte. Ltd.	OS	100%	138 Market Street, CapitaGreen #35-01, 048946, Singapore
M&G Investments (USA) Inc	OS	100%	251 Little Falls Drive, Wilmington, DE, 19801, USA
M&G Investments Japan Co., Ltd.	OS	100%	3-1, Toranomon 4-chome, Minato-ku, Tokyo, Japan
M&G Investments Life South Africa (RF) Limited	OS	100%	Protea Place, 40 Dreyer Street, Claremont, 7708, South Africa
M&G Investments Southern Africa (Pty) Limited	OS	50%	Protea Place, 40 Dreyer Street, Claremont, 7708, South Africa
M&G Investments Unit Trusts (Namibia) Limited	OS	100%	Unit 3, 2nd Floor, Ausspann Plaza, Dr Agostinho Neto Road, Private Bag 12012, Ausspannplatz, Windhoek, Namibia
M&G Investments Unit Trusts South Africa (RF) Limited	OS	100%	Protea Place, 40 Dreyer Street, Claremont, 7708, South Africa
M&G Lux Emerging Markets Bond Fund	U	61%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G LUX EURO EX UK EQUITY FUND	U	99%	M&G Luxembourg S.A., 16 Boulevard Royal, L-2449, Luxembourg
M&G LUX EURO EX UK INDEX FUND	U	99%	M&G Luxembourg S.A., 16 Boulevard Royal, L-2449, Luxembourg
M&G LUX PAN EURO SMALL CO FUND	U	100%	M&G Luxembourg S.A., 16 Boulevard Royal, L-2449, Luxembourg
M&G Lux Sterling Liquidity Fund	U	100%	M&G Luxembourg S.A., 16 Boulevard Royal, L-2449, Luxembourg
M&G Luxembourg S.A.	OS	100%	16, Boulevard Royal, L-2449, Luxembourg
M&G Management Services Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Nominees Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G PFI 2018 GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G PFI 2018 GP1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK

40 Related undertakings continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G PFI 2018 GP2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G PFI Carry Partnership 2016 LP	LPI	25%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G PFI Partnership 2018 LP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G Platform Nominees Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G PROPERTY PORTFOLIO	U	87%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G RE Espana, 2016, S.L.	OS	100%	Calle Fortuny, 6 – 4 A, 28010, Madrid, Spain
M&G RE UKEV (GP1) LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G RE UKEV 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G RE UKEV 1-A LP	LPI	50%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Real Estate Asia Holding Company Pte. Ltd.	OS	67%	138 Market Street, CapitaGreen #35-01, 048946, Singapore
M&G Real Estate Asia PTE. Ltd.	OS	67%	138 Market Street, CapitaGreen #35-01, 048946, Singapore
M&G Real Estate Funds Management S.à r.l.	OS	100%	16, Boulevard Royal, L-2449, Luxembourg
M&G Real Estate Japan Co., Ltd.	OS	100%	9/F Shiroyama Trust Tower, 4-3-1 Toranomon, Minato-ku, Tokyo 105-6009, Japan
M&G Real Estate Korea Co., Ltd.	OS	67%	Jongno 1-ga, Kyobo Building, Seoul, Korea
M&G Real Estate Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Real Estate UK Enhanced Value LP	LPI	50%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G Real Estate UKEV (GP) LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G RED II Employee Feeder GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED II GP Limited	OS	100%	De Catapan House, Grange Road, St Peter Port, GY1 2QG, Guernsey
M&G RED II SLP GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED II SLP LP	LPI	28%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED III Employee Feeder GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED III GP Limited	OS	100%	De Catapan House, Grange Road, St Peter Port, GY1 2QG, Guernsey
M&G RED III SLP GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED III SLP LP	LPI	25%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RPF GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G RPF Nominee 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G RPF Nominee 2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Securities Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G SFF (CIP GP) Sárl	OS	100%	51, Avenue J.F. Kennedy, L-1855, Luxembourg
M&G SFF (GP) Sárl	OS	100%	51, Avenue J.F. Kennedy, L-1855, Luxembourg
M&G Shared Ownership GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G Shared Ownership LP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G SIF Management Company (Ireland) Limited	OS	100%	5 George's Dock, IFSC, Dublin 1, Ireland
M&G Sustainable Loan Fund Limited	OS	86%	5 Georges Dock, Ifsc, Dublin 1, Dublin, Ireland
M&G Sustainable Multi Asset Fund	U	52%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UK Companies Financing Fund II LP	LPI	48%	10 Fenchurch Avenue, London, EC3M 5AG, UK

40 Related undertakings continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G UK Mortgage Income Fund	U	100%	16, Boulevard Royal, L-2249 Luxembourg
M&G UK Property Fund	OS	98%	16, Boulevard Royal, L-2449, Luxembourg
M&G UK Property GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UK Property Nominee 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UK Property Nominee 2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UK Residential Property Fund	LPI	26%	34-38, avenue de la Liberté, L-1931, Luxembourg
M&G UK Shared Ownership Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UKCF II GP Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UKEV (SLP) General Partner LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G UKEV (SLP) LP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G Wealth Advice Limited (formerly known as Prudential Financial Planning Limited)	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
M&G(1)INVESCO GLOBAL EMERGING MARKETS EQUITY FD	U	100%	M&G Luxembourg S.A., 16 Boulevard Royal, L-2449, Luxembourg
M&G(1)LAZARD GLOBAL EMERGING MARKETS EQUITY FD	U	100%	M&G Luxembourg S.A., 16 Boulevard Royal, L-2449, Luxembourg
Manchester JV Limited	OS	50%	40 Broadway, London, SW1H 0BU, UK
Manchester Nominee (1) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
MCF S.r.l.	OS	45%	Via Montenapoleone 29 CAP, 20121, Milan, Italy
Minster Court Estate Management Limited	OS	56%	10 Fenchurch Avenue, London, EC3M 5AG, UK
NAPI REIT, Inc	OS	99%	300 E Lombard Street, Baltimore, MD 21202, USA
NB Gemini Fund LP	LPI	99%	Maples Corporate Services Limited, Ugland House, PO Box 309, Grand Cayman, KY1-1104 Cayman Islands
Old Kingsway LP	LPI	100%	2711 Centreville Road, Suite 400, Wilmington, DE 19808, USA
Optimus Point Management Company Limited	OS	52%	Barrat House, Cartwright Way, Bardon Hill, Coalville, LE67 1UF, UK
Pacus (UK) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
PAP Trustee Pty Limited	OS	100%	Level 17 Tower One, International Towers, Barangaroo, Sydney, NSW 2000, Australia
PGDS (UK One) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
PGF Management Company (Ireland) Limited	OS	50%	5 George's Dock, Dublin 1, D01 X8N7, Ireland
PPM America Private Equity Fund III LP	LPI	50%	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM America Private Equity Fund IV LP	LPI	50%	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM America Private Equity Fund V LP	LPI	50%	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM America Private Equity Fund VI LP	LPI	40%	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM America Private Equity Fund VII LP	LPI	46%	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM Capital (Holdings) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
PPM Managers GP Limited	OS	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
PPM Managers Partnership CI VII (A) LP	LPI	25%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
PPM Ventures (Asia) Limited (In liquidation)	OS	100%	13/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
PPMC First Nominees Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK

40 Related undertakings continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Property Partners (Two Rivers) Limited	OS	50%	Bow Bells House, 1 Bread Street, London, EC4M 9HH, UK
Pru Limited (formerly known as Prudential Leasing Services Limited)	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudence Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Capital (Singapore) Pte. Ltd.	OS	100%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre, 018983, Singapore
Prudential Capital Holding Company Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Capital Public Limited Company	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Corporate Pensions Trustee Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Credit Opportunities 1 S.a.r.l.	OS	100%	1, Rue Hildegard von Bingen, L-1282, Luxembourg
Prudential Credit Opportunities 2 S.a.r.l	OS	100%	1, Rue Hildegard von Bingen, L-1282, Luxembourg
Prudential Credit Opportunities GP S.a.r.l	OS	100%	1, Rue Hildegard von Bingen, L-1282, Luxembourg
Prudential Credit Opportunities SCSp	LPI	100%	1, Rue Hildegard von Bingen, L-1282, Luxembourg
Prudential Distribution Limited	OS	100%	Craigforth, Stirling, FK9 4UE, UK
Prudential Dynamic 0-30 Portfolio	U	24%	17 Rochester Row, London, SW1P 1QT, UK
Prudential Dynamic 20-55 Portfolio	U	23%	17 Rochester Row, London, SW1P 1QT, UK
Prudential Dynamic 40-80 Portfolio	U	34%	17 Rochester Row, London, SW1P 1QT, UK
Prudential Dynamic 60-100 Portfolio	U	31%	17 Rochester Row, London, SW1P 1QT, UK
Prudential Dynamic Focused 0-30 Portfolio	U	40%	17 Rochester Row, London, SW1P 1QT, UK
Prudential Equity Release Mortgages Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Financial Planning Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Financial Services Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential GP Limited	OS	100%	Craigforth, Stirling, FK9 4UE, UK
Prudential Greenfield GP LLP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Greenfield GP1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Greenfield GP2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Greenfield LP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Greenfield SLP GP LLP	LPI	100%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Prudential Holborn Life Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential International Assurance plc	OS	100%	Montague House, Adelaide Road, Dublin 2, D02 K039, Ireland
Prudential International Management Services Limited	OS	100%	Montague House, Adelaide Road, Dublin 2, D02 K039, Ireland
Prudential Investment (Luxembourg) 2 S.à.r.l.	OS	100%	16 Boulevard Royal, L-2449, Luxembourg
Prudential Lifetime Mortgages Limited	OS	100%	Craigforth, Stirling, FK9 4UE, UK
Prudential Lifetime Mortgages Limited	OS	100%	Craigforth, Stirling, FK9 4UE, UK
Prudential Loan Investments 1 S.a.r.l	OS	100%	1, Rue Hildegard von Bingen, L-1282, Luxembourg
Prudential Loan Investments GP S.a.r.l	OS	100%	1, Rue Hildegard von Bingen, L-1282, Luxembourg
Prudential Loan Investments SCSp	LPI	100%	1, Rue Hildegard von Bingen, L-1282, Luxembourg
Prudential Pensions Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Polska sp. z.o.o	OS	100%	02-670 Warszawa, Pulawska 182, Poland
Prudential Portfolio Management Group Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Portfolio Managers (South Africa) (Pty) Limited	OS	50%	Protea Place, 40 Dreyer Street, Claremont, 7708, South Africa
Prudential Portfolio Managers Life Nominees (Pty) Limited	OS	100%	Protea Place, 40 Dreyer Street, Claremont, 7708, South Africa
Prudential Portfolio Managers Nominees (Pty) Limited	OS	100%	Protea Place, 40 Dreyer Street, Claremont, 7708, South Africa

40 Related undertakings continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Prudential Property Investment Managers Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Property Services Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Real Estate Investments 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Real Estate Investments 2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Real Estate Investments 3 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Staff Pensions Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential Trustee Company Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential UK Real Estate General Partner Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential UK Real Estate Limited Partnership	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential UK Real Estate Nominee 1 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential UK Real Estate Nominee 2 Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prudential UK Services Limited	OS	100%	Craigforth, Stirling, FK9 4UE, UK
Prudential Unit Trusts Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Prutec Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
PVM Partnerships Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Randolph Street LP	LPI	100%	2711 Centreville Road, Suite 400, Wilmington, DE 19808, USA
Schoolhill Sarl	OS	100%	20, rue de la Poste, Luxembourg
ScotAm Pension Trustees Limited	OS	100%	Craigforth, Stirling, FK9 4UE, UK
Scottish Amicable Finance Limited	OS	100%	Craigforth, Stirling, FK9 4UE, UK
Scottish Amicable Life Assurance Society	No share capital	100%	Craigforth, Stirling, FK9 4UE, UK
Sectordate Limited	OS	33%	1st Floor, Cavendish House, 39 Waterloo Street, Birmingham, B2 5PP, UK
Selly Oak Shopping Park (General Partner) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Selly Oak Shopping Park (Nominee 1) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Selly Oak Shopping Park (Nominee 2) Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Selly Oak Shopping Park Limited Partnership	LPI	63%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Silverfleet Capital 2004 LP	LPI	100%	1 Royal Plaza, St Peter Port, GY1 2HL, Guernsey
Silverfleet Capital 2009 LP	LPI	100%	1 Royal Plaza, St Peter Port, GY1 2HL, Guernsey
Silverfleet Capital 2011/12 LP	LPI	100%	1 Royal Plaza, St Peter Port, GY1 2HL, Guernsey
Silverfleet Capital II WPLF LP	LPI	100%	1 Carter Lane, London, EC4V 5ER, UK
Sky Fund I LP	LPI	99%	Maples Corporate Services Limited, Ugland House, P.O. Box 309, Grand Cayman, KY1-1104, Cayman Islands
SKY FUND V ONSHORE, LP	LPI	99%	559 Pacific Avenue, San Francisco, CA 94133
SKY I Intermediate LP	LPI	50%	Maples Corporate Services Limited, Ugland House, P.O. Box 309, Grand Cayman, KY1-1104, Cayman Islands
Smithfield Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
SMLLC	LPI	100%	1209 Orange Street, Wilmington, DE 19801, USA
SOFA Holding LP	LPI	100%	2711 Centerville Road, Suite 400, Wilmington, Delaware 19808
St Edward Homes Limited	OS	50%	Berkeley House, 19 Portsmouth Road, Surrey, KT11 1JG, UK
St Edward Homes Partnership	OS	50%	Berkeley House, 19 Portsmouth Road, Surrey, KT11 1JG, UK

40 Related undertakings continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
St Edward Strand Partnership	OS	50%	Berkeley House, 19 Portsmouth Road, Surrey, KT11 1JG, UK
Stableview Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
StepStone Scorpio Infrastructure Opportunities Fund, L.P.	LPI	100%	c/o Maples Corporate Services Limited, Ugland House, PO Box 309, Grand Cayman, KY1-1104, Cayman Islands
Sustainable Multi Asset Balanced Fund	U	62%	10 Fenchurch Avenue, London, EC3M 5AG
Sustainable Multi Asset Cautious Fund	U	82%	10 Fenchurch Avenue, London, EC3M 5AG
Sustainable Multi Asset Growth Fund	U	79%	10 Fenchurch Avenue, London, EC3M 5AG
The Car Auction Unit Trust	U	49%	Dorey Court, Admiral Park, St Peter Port, GY1 2HT, Guernsey
The First British Fixed Trust Company Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
The Project Hoxton LP	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
The Prudential Assurance Company Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
The Strand Property Unit Trust	LPI	50%	Liberte House, 19-23 La Motte Street, St Helier, JE2 4SY, Jersey
The Two Rivers Trust	OS	50%	Liberte House, 19-23 La Motte Street, St Helier, JE2 4SY, Jersey
Three Snowhill Birmingham S.a.r.l.	OS	100%	5, Heienhaff, L-1736, Senningerberg, Luxembourg
Two Rivers LP	LPI	50%	Bow Bells House, 1 Bread Street, London, EC4M 9HH, UK
Two Snowhill Birmingham S.a.r.l.	OS	100%	5, Heienhaff, L-1736, Senningerberg, Luxembourg
Vanquish I Unit Trust	OS	100%	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish II Unit Trust	OS	100%	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish Properties (UK) Limited Partnership	LPI	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Vanquish Properties GP Limited	OS	100%	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish Properties GP Nominee 1 Limited	OS	100%	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish Properties GP Nominee 2 Limited	OS	100%	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish Properties GP Nominee 3 Limited	OS	100%	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish Properties GP Nominee 4 Limited	OS	100%	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish Properties GP Nominee A Limited	OS	100%	IFC 5, St Helier, JE1 1ST, Jersey
Vanquish Properties LP Limited	OS	100%	IFC 5, St Helier, JE1 1ST, Jersey
Via Lodovisco	OS	100%	Via Alessandro Manzoni n.38, Milano, Italy
Wessex Gate Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Westwacker Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
WFH Investments LLC	LPI	50%	2711 Centerville Road, Suite 400, Wilmington, County of New Castle, Delaware 19808
Wrap IFA Services Limited	OS	100%	10 Fenchurch Avenue, London, EC3M 5AG, UK
Wynnefield Private Equity Partners II, L.P.	LPI	99%	1209 Orange Street, Wilmington, DE 19801, USA

Company statement of financial position

As at 31 December	Notes	2021 £m	2020 £m
Assets			
Investments in subsidiaries	A	**10,524**	10,494
Deferred tax	B	**90**	73
Loans	C	**1,651**	1,001
Accrued investment income and other debtors	D	**22**	9
Cash and cash equivalents	E	**58**	39
Total assets		**12,345**	11,616
Equity			
Share capital	F	**130**	130
Share premium	F	**370**	370
Shares held by employee benefit trust	G	**(93)**	(117)
Retained earnings		**8,013**	7,247
Equity-settled share-based payment reserve		**80**	73
Total equity		**8,500**	7,703
Liabilities			
Subordinated liabilities and other borrowings	H	**3,706**	3,729
Current tax liabilities	B	**5**	10
Provisions	I	**20**	33
Accruals, deferred income and other liabilities	J	**114**	141
Total liabilities		**3,845**	3,913
Total equity and liabilities		**12,345**	11,616

The Notes on pages 293 to 300 are an integral part of these financial statements.

The financial statements on pages 291 to 300 were approved by the Board and signed on its behalf by the following Directors on 7 March 2022:

John Foley Chief Executive

Clare Thompson Audit Committee Chair

Company statement of changes in equity

	Share capital £m	Share premium £m	Shares held by employee benefit trust £m	Equity-settled share-based payment reserve £m	Retained earnings £m	Total equity £m
As at 1 January 2021	**130**	**370**	**(117)**	**73**	**7,247**	**7,703**
Profit for the year	**–**	**–**	**–**	**–**	**1,202**	**1,202**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**1,202**	**1,202**
Transactions with equity holders:						
– Dividends paid	**–**	**–**	**–**	**–**	**(466)**	**(466)**
Vested employee share-based payments	**–**	**–**	**–**	**(33)**	**33**	**–**
Shares distributed by employee trusts	**–**	**–**	**24**	**–**	**(24)**	**–**
Expense recognised in respect of share-based payments	**–**	**–**	**–**	**40**	**–**	**40**
Shares acquired by employee trusts	**–**	**–**	**–**	**–**	**–**	**–**
Tax effect of items recognised directly in equity	**–**	**–**	**–**	**–**	**21**	**21**
Net increase in equity	**–**	**–**	**24**	**7**	**766**	**797**
As at 31 December 2021	**130**	**370**	**(93)**	**80**	**8,013**	**8,500**

	Share capital £m	Share premium £m	Shares held by employee benefit trust £m	Equity-settled share-based payment reserve £m	Retained earnings £m	Total equity £m
As at 1 January 2020	130	370	(26)	39	8,020	8,533
Loss for the year	–	–	–	–	(222)	(222)
Total comprehensive loss for the year	–	–	–	–	(222)	(222)
Transactions with equity holders:						
– Dividends paid	–	–	–	–	(562)	(562)
Vested employee share-based payments	–	–	–	(17)	17	–
Shares distributed by employee trusts	–	–	14	–	(14)	–
Expense recognised in respect of share-based payments	–	–	–	51	–	51
Shares acquired by employee trusts	–	–	(105)	–	–	(105)
Tax effect of items recognised directly in equity	–	–	–	–	8	8
Net (decrease)/increase in equity	–	–	(91)	34	(773)	(830)
As at 31 December 2020	130	370	(117)	73	7,247	7,703

The Notes on pages 293 to 300 are an integral part of these financial statements.

Company accounting policies

(a) Basis of preparation

These separate financial statements for the year ended 31 December 2021 have been prepared in accordance with UK Generally Accepted Accounting Practice, including Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and Part 15 of the Companies Act 2006.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of UK-adopted international accounting standards, but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The financial statements have been prepared on a going concern basis under the historical cost basis and are presented rounded to the nearest million pounds sterling.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Statement of compliance with IFRS
- Outstanding shares comparative
- Requirement for minimum of two primary statements, including statement of cash flows
- Additional comparative information
- Capital management disclosures
- Statement of cash flows
- Financial instruments disclosure
- Effect of IFRSs issued but not effective
- Related party transactions with wholly-owned subsidiaries

The Company adopted IFRS 9 Financial Instruments effective for the first time from 1 January 2018. This did not have a material impact on the Company as it does not hold significant financial instruments. This differs from the Group treatment whereby the Group has met the required eligibility criteria for temporary exemption and the adoption of IFRS 9 has been deferred until 1 January 2023 to coincide with the adoption of IFRS 17.

The Company has taken advantage of the exemption in Section 408 of the Companies Act 2006 not to present its own income statement in these financial statements. The auditor's remuneration for audit and other services is disclosed in Note 8 of the Group financial statements. During the year, the Company had two (2020: two) employees.

(b) Key judgements and critical accounting estimates

A full list of the Company's significant accounting policies is provided in Section (c) of this Note below.

The preparation of these financial statements require management to apply judgement in relation to certain accounting policies. In addition, management have to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses arising during the year. Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The area which required management to apply significant estimates and assumptions which were material to the financial statements is as follows:

Financial statement area	Key estimate and assumptions	Accounting policy	Note
Impairment of investment in subsidiaries	When assessing impairment of subsidiaries where indicators of impairment exist the carrying value is compared to the recoverable amount, which is the higher of fair value less cost of disposal and value-in-use. The determination of the recoverable amount, especially in relation to the value-in-use calculation requires the use of various assumptions that can have a material impact on the calculation.	(c) (ii)	A

Company accounting policies continued

(c) Critical accounting policies

(i) Dividend income

Dividend income from investments is recognised when the shareholders' right to receive payments has been established.

(ii) Investment in subsidiaries

Investment in subsidiaries is stated at cost less, where appropriate, allowances for impairment. Investments are reviewed annually to assess whether there are indicators of impairment. Where indicators of impairment exist, the carrying value of the investment in the subsidiary is compared against its recoverable amount, which is the higher of the fair value less cost to sell or the value-in-use, with any resulting impairment recorded in the income statement.

Investment in subsidiaries under common control transactions which are acquired as part of a Group reorganisation are recorded at fair value of the consideration received, which is deemed to be the cost at the point of initial recognition. Any gains and losses arising on disposal of subsidiaries are recorded in profit or loss.

(iii) Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand with an original maturity date of 90 days or less. Cash and cash equivalents are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method and are subject to the impairment requirements of IFRS 9.

(iv) Tax

Current tax
Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to income tax payable in respect of previous years. Current tax is charged or credited to the income statement, except when it relates to items recognised directly in equity or other comprehensive income.

Deferred tax
Deferred taxes are provided under the liability method for all relevant temporary differences. IAS 12: Income Taxes does not require all temporary differences to be provided for, in particular, the Company does not provide for deferred tax on undistributed earnings of subsidiaries where the Company is able to control the timing of the distribution and the temporary difference created is not expected to reverse in the foreseeable future. Deferred tax assets are only recognised when it is more likely than not that future taxable profits will be available against which these losses can be utilised.

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 substantively enacted at the end of the reporting period.

(v) Share capital and share premium

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Shares are classified as equity when their terms do not create an obligation to transfer assets. The nominal value of shares issued is recorded in share capital.

Where the consideration received from the issue or sale of existing shares exceeds the nominal value recorded in share capital, the difference is recorded in share premium. Share premium is recorded net of share issue costs.

(vi) Dividends

Dividends are recognised when the obligation becomes certain, i.e., when the dividend is no longer at the discretion of the Company. In the case of interim dividends, this occurs when the dividends are paid. For final dividends, this occurs when they are recommended by the Board and approved by shareholders.

(vii) Subordinated liabilities

Subordinated liabilities include loan notes issued by the Company which are classified as financial liabilities as they have a fixed repayment date and do not represent a residual interest in the net assets of the Company on liquidation. The notes rank junior to all other liabilities of the Company in the event of liquidation, but above share capital.

Subordinated liabilities are initially recognised at fair value, net of transaction costs.

(viii) Share-based payments

All share-based payments made to employees for services rendered are measured based on the fair value of the equity instrument granted. The fair value takes into account the impact of market-based vesting conditions and non-vesting conditions, but excludes any impact of non-market-based vesting conditions. The related share-based payment expense is recognised over the vesting period. The fair value may be determined using an option pricing model such as Black-Scholes, where appropriate, taking into account the terms and conditions of the award.

For equity-settled share-based payments, the fair value of service rendered is based on the fair value of the equity instrument at grant date which is not remeasured subsequently. The share-based payment expense is based on the number of equity instruments expected to vest over the vesting period, with the corresponding entry to equity.

Company accounting policies continued

For cash-settled share-based payments, the fair value of service rendered is based on the fair value of the related liability to the equity instrument granted. The fair value equity instrument granted is remeasured at each reporting date with any changes recognised in the share-based payment expense for the period.

A cancellation of an award without the grant of a replacement equity instrument is accounted for as an acceleration of vesting. Accordingly, any share-based payment expense that would have been recognised over the remaining vesting period is recognised immediately.

Where replacement equity instruments are granted to employees in place of the cancelled equity instruments, the replacement award is treated as a modification of the original award. At the point of replacement, the awards are remeasured to the fair value at the date of replacement, which forms the basis of recognising the expense over the remaining vesting period.

(ix) Provisions and contingent assets and liabilities

Provisions are recognised on the statement of financial position when the Company has a present legal or constructive obligation resulting from a past event, it is probable that a loss will be made in settling the obligation and the amounts can be estimated reliably.

Provisions are measured based on management's best estimate of the expenditure required to settle the obligation at the reporting date. Provisions are discounted and represent the present value of the expected expenditure where the effect of the time value of money is material.

Contingent liabilities are possible obligations of the Company where the timing and amount are subject to significant uncertainty. Contingent liabilities are not recognised on the statement of financial position, unless they are assumed by the Company as part of a business combination. Contingent liabilities are however disclosed, unless they are considered to be remote. If a contingent liability becomes probable and the amount can be reliably measured it is no longer treated as contingent and is recognised as a liability.

Contingent assets which are possible benefits to the Company are only disclosed if it is probable that the Company will receive the benefit. Mirroring the treatment of contingent liabilities, if such a benefit becomes virtually certain, it is no longer considered contingent and is recognised on the statement of financial position as an asset.

(x) Financial instruments

Recognition and initial measurement
A financial asset is initially measured at fair value plus, for a financial asset not measured at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue.

Classification and subsequent measurement
On initial recognition, a financial asset is classified and measured at either amortised cost or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets that do not meet the criteria for being measured at amortised cost, as described above, are measured at FVTPL. This includes assets that are held for trading or are part of a portfolio that is managed on a fair value basis.

Financial assets are not reclassified subsequent to their initial recognition unless the entity changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Financial assets at FVTPL are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Impairment losses on financial assets measured at amortised cost are measured using an expected credit loss impairment model. Impairment losses representing the expected credit loss in the next 12 months are recognised unless there has been a significant increase in credit risk from initial recognition, in which case, lifetime expected losses are recognised. Where relevant, the Company makes use of the exemption available for financial instruments with low credit risk, for which, an assessment of a significant increase in credit risk is not required.

A. Investment in subsidiaries

As at 31 December	2021 £m	2020 £m
Cost at 1 January	**11,717**	12,226
Acquisition of subsidiaries	**–**	10,433
Capital contribution into subsidiaries	**30**	27
Disposal of subsidiaries	**–**	(10,969)
Cost at 31 December	**11,747**	11,717
Impairment at 1 January	**(1,223)**	(1,157)
Impairment of subsidiaries	**–**	(66)
Impairment at 31 December	**(1,223)**	(1,223)
Investment in subsidiaries at 31 December	**10,524**	10,494

(i) Capital contributions

On 20 December 2021 the Company increased its investment in M&G Corporate Holdings Limited through the purchase of 25,000,000 ordinary shares for cash consideration of £25m. The additional £5m relates to capital contributions arising from share-based payments to employees of subsidiaries.

(ii) Prior year acquisitions and disposals

On 23 July 2020 the Company acquired an additional 99,999 ordinary shares of £1 each in M&G Group Regulated Entity Holding Company Limited through a share for share exchange for the entire share capital of M&G Group Limited and The Prudential Assurance Company Limited.

On 23 July 2020 M&G Group Limited and The Prudential Assurance Company Limited were transferred from the Company to M&G Group Regulated Entity Holding Company Limited, a direct subsidiary of the Company, at fair value in a share for share exchange. The Company recognised a loss on disposal of £602m for the year ended 31 December 2020 in respect of the transfer of M&G Group Limited.

On 31 August 2020 the Company acquired Prudential Capital Public Limited Company via an in specie dividend from Prudential Capital Holding Company Limited, a direct subsidiary of the Company.

(iii) Direct subsidiaries

The direct subsidiaries of the Company as at 31 December 2021 are listed below:

Company name	Country of incorporation or registration	Nature of business	% held
M&G Group Regulated Entity Holding Company Limited	United Kingdom	Holding company	100%
M&G Corporate Holdings Limited	United Kingdom	Holding company	100%
Prudential Financial Services Limited	United Kingdom	Holding company	100%
Prudential Property Services Limited	United Kingdom	Service company	100%
Prudential Capital Holding Company Limited	United Kingdom	Holding company	100%
Prudential Capital Public Limited Company	United Kingdom	Service company	100%

Details of the Company's related undertakings are given in Note 40 of the Group financial statements.

A. Investment in subsidiaries continued

(iv) Impairment

No impairment charge was recognised in relation to Investment in subsidiaries during the year ended 31 December 2021.

In 2020, impairment was recognised in respect of the Company's investment in Prudential Financial Services Limited of £10m. The recoverable amount of the investment was £10m. Additionally, £56m of impairment was recognised in respect of the Company's investment in Prudential Capital Holding Company Limited of £56m, following the in specie dividend transfer of Prudential Capital Public Limited Company. The recoverable amount of the investment was £12m.

M&G Group Regulated Entity Holding Company Limited is the main subsidiary of the Company and acts as the main holding entity for all of the Group's regulated businesses. The continued adverse impacts of COVID-19 on the global economy and its resulting implications on the Company's market capitalisation and potential future business performance were considered an impairment indicator by management. Therefore, an impairment assessment was undertaken in relation to the subsidiary by comparing its recoverable amount with the carrying value. The recoverable amount of the subsidiary was based on its value in use. As the subsidiary acts as a holding company with no operations, the value in use was determined as the sum of the values in use of the underlying subsidiaries in which the subsidiary has investment in. At 31 December 2021 this comprised of M&G Group Limited, The Prudential Assurance Company Limited and Wrap IFA Services Limited. The values in use of these indirect subsidiaries were determined based on discounted cashflow and dividend discount models based on management forecasts.

The value in use calculation is based on a set of economic, market and business assumptions used to derive the cash flow forecasts. The calculation is particularly sensitive to a number of key assumptions as follows:

- In respect of M&G Group Limited, a terminal multiplier of 13x was applied based on observed multiples in the market;
- In respect of The Prudential Assurance Company Limited, the terminal multiplier applied was based on the nature of the underlying book of business derived from observed market multiples as follows: 0.9x price/own funds multiple for the annuities business, 10x price/earnings multiple for the heritage with-profits business and 8.4x price/earnings multiple for Wealth with-profits business;
- In respect of Wrap IFA Limited, a terminal multiplier of 21x was applied based on observed multiples in the market.

The pre-tax discount rate as at 31 December 2021 based on the cost of equity approach was applied as follows:

Underlying subsidiary	Discount Rate
M&G Group Limited	14%
The Prudential Assurance Company Limited	9%
Wrap IFA Limited	15%

A simultaneous increase of 1% in discount rate and decrease in the terminal multiplier to 12x would result in the carrying value of M&G Group Limited reducing by £303m. This would not result in any impairment being recorded in respect of M&G Group Regulated Entity Holding Company Limited.

A simultaneous increase of 1% in discount rate and decrease in the terminal multiplier by 10% would result in the carrying value of The Prudential Assurance Company Limited reducing by £772m. This would not result in any impairment being recorded in respect of M&G Group Regulated Entity Holding Company Limited.

A simultaneous increase of 1% in discount rate and decrease in the terminal multiplier to 18x would result in the carrying value of Wrap IFA Services Limited reducing by £22m. This would not result in any impairment being recorded in respect of M&G Group Regulated Entity Holding Company Limited.

Based on this assessment, no impairment charge was recorded, as at 31 December 2021, in respect of M&G Group Regulated Entity Holding Company Limited.

B. Tax

(i) Deferred tax assets and liabilities

Under IAS 12, 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 substantively enacted at the end of the reporting period. Deferred tax assets are recognised to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all available evidence, it can be regarded as probable 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 table below shows movements on deferred tax assets during the year:

	2021 £m	2020 £m
As at 1 January	**73**	68
Income statement	**(4)**	(3)
Equity and other comprehensive income	**21**	8
As at 31 December	**90**	73

Of the £90m (2020: £73m) deferred tax asset at 31 December 2021, £88m (2020: £73m) relates to short-term timing differences arising on the subordinated notes. The £21m movement in reserves predominantly relates to the revaluation of the deferred tax asset on the subordinated notes as a result of the increase in the UK corporation tax rate, with effect from 1 April 2023, from 19% to 25%. The income statement movement primarily relates to the amortisation of the subordinated liabilities in the period. The remaining minor balances and movements relate to the deferred tax asset on share-based compensation.

Unrecognised deferred tax

Retained earnings of overseas subsidiaries are expected to be re-invested 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. Consequently, the Company does not consider there to be any significant taxable temporary differences associated with investments in subsidiaries, branches, associates and joint arrangements.

(ii) Current tax

As at 31 December	**2021 £m**	2020 £m
Net corporation tax (liability)/asset as at 1 January	**(10)**	28
Income statement	**63**	50
Corporation tax paid	**(58)**	(88)
	(5)	(10)
Corporation tax assets (UK)	**–**	–
Corporation tax liabilities (UK)	**(5)**	(10)
Net corporation tax liability as at 31 December	**(5)**	(10)

	Corporation tax liabilities	
As at 31 December	**2021 £m**	2020 £m
Corporation tax due within 12 months	**(5)**	(10)
As at 31 December	**(5)**	(10)

C. Loans

As at 31 December 2021 the Company had provided loans to Prudential Capital plc of £1,651m (2020: £1,001m) which are repayable on demand. Accrued interest as at 31 December 2021 was £nil (2020: £nil).

D. Accrued investment income and other debtors

As at 31 December	2021 £m	2020 £m
Amounts owed by Group undertakings	**21**	7
Other	**1**	2
Total accrued investment income and other debtors	**22**	9
Analysed as:		
No contractual maturity	**22**	9
Expected to be settled within one year	**–**	–
Total accrued investment income and other debtors	**22**	9

E. Cash and cash equivalents

As at 31 December	2021 £m	2020 £m
Cash	**58**	39
Total cash and cash equivalents	**58**	39

F. Share capital and share premium

Details of the Company's share capital and share premium are given in Note 22 of the Group financial statements.

Details of the dividends paid on the ordinary shares by the Company are provided in Note 11 of the Group financial statements. Note 11 also includes information regarding the final dividend proposed by the Directors for the year ended 31 December 2021.

G. Shares held by employee benefit trusts and other treasury shares

Details of the Company's shares held by trust are given in Note 23 of the Group financial statements.

H. Subordinated liabilities and other borrowings

Details of the Company's subordinated liabilities are given in Note 27.1 of the Group financial statements.

I. Provisions

Provisions of £20m as at 31 December 2021 (2020: £33m) related to change in control costs arising from the Demerger in 2019, which were expected to be incurred within four years of the separation from Prudential plc.

J. Accruals, deferred income and other liabilities

As at 31 December	2021 £m	2020 £m
Amounts owed to Group undertakings	**58**	86
Accrued interest on subordinated debt	**42**	42
Other	**14**	13
Total accruals, deferred income and other liabilities	**114**	141
Analysed as:		
No contractual maturity	**58**	86
Expected to be settled within one year	**48**	47
Expected to be settled after one year	**8**	8
Total accruals, deferred income and other liabilities	**114**	141

K. Related party transactions

The Directors and key management personnel of the Company are considered to be the same as for the Group. See Note 36 of the Group financial statements for further information.

There were no other related party transactions in the years ended 31 December 2021 and 31 December 2020 other than those noted in Note A, Note C, Note D and Note J of the Company financial statements.

L. Contingencies and related obligations

Details of the Company's contingencies and related obligations are given in Note 34 of the Group financial statements.

Intra-group capital support arrangements

The Company and PAC have put in place intra-group arrangements to formalise circumstances in which capital support would be made available by the Company. While the Company considers it unlikely that such support will be required, the arrangements are intended to provide additional comfort to PAC and its policyholders.

M. Share-based payments

Details of the Company's share-based payments are given in Note 38 of the Group financial statements.

Supplementary financial information

1.1 Overview of the Group's key performance measures

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

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

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

Key performance measure	Type	Definition
IFRS profit after tax	KPM	IFRS profit 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 profit before tax. Certain adjustments that are considered to be non-recurring or strategic, or due to short-term movements not reflective of longer-term performance are made to IFRS profit before tax. Adjustments are in respect of short-term fluctuations in investment returns, costs associated with fundamental one-off Group-wide restructuring and transformation, profit/(loss) arising on corporate transactions and profit/(loss) before tax from discontinued operations and impairment and amortisation in respect of acquired intangible assets. The adjusted operating profit methodology is described in Section 3.2, along with a reconciliation of adjusted operating profit before tax to IFRS profit after tax.
Net client flows (excluding Heritage)	KPM	Net client flows (excluding Heritage) represent gross inflows less gross outflows. Gross inflows are new funds from clients and customers. Gross outflows are money withdrawn by clients and customers during the period.
Assets under management and administration (AUMA)	KPM	Closing AUMA represents the total market value of all assets managed, administered or advised on behalf of customers and clients at the end of each financial period. Assets managed by the Group include those managed on behalf of our retail customers and institutional and retail clients. Assets administered by the Group includes assets which we provide investment management services for, in addition to assets we administer where the customer has elected to invest in 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.
Shareholder Solvency II coverage ratio	APM, KPM	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. The shareholder Solvency II coverage ratio is described in the "Solvency II capital position" section.
Total capital generation	KPM	Surplus capital is the amount by which own funds exceed SCR under Solvency II. Total capital generation is the total change in Solvency II surplus capital before dividends and capital movements.
Operating capital generation	KPM	Operating capital generation is the total capital generation before tax, adjusted to exclude market movements relative to those expected under long-term assumptions and to remove other non-operating items, including shareholder restructuring and other costs.

1.2 Adjusted operating profit before tax

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

For the year ended 31 December	Asset Management 2021 £m	Asset Management 2020 £m	Retail and Savings 2021 £m	Retail and Savings 2020 £m	Corporate Centre 2021 £m	Corporate Centre 2020 £m	Total 2021 £m	Total 2020 £m
Fee-based revenue	**976**	989	**278**	231	**–**	–	**1,254**	1,220
Annuity margin	**–**	–	**369**	438	**–**	–	**369**	438
With-profits shareholder transfer net of hedging and other gains/losses	**–**	–	**268**	221	**–**	–	**268**	221
Adjusted operating income	**976**	989	**915**	890	**–**	–	**1,891**	1,879
Adjusted operating expenses	**(672)**	(669)	**(296)**	(250)	**(95)**	(101)	**(1,063)**	(1,020)
Other shareholder (loss)/profit	**17**	4	**41**	61	**(159)**	(142)	**(101)**	(77)
Share of profit from joint ventures and associates[i]	**6**	10	**–**	–	**–**	–	**6**	10
Adjusted operating profit attributable to non-controlling interests	**(12)**	(4)	**–**	–	**–**	–	**(12)**	(4)
Adjusted operating profit/(loss) before tax	**315**	330	**660**	701	**(254)**	(243)	**721**	788

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

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

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

i Includes carried interest.

1.2 Adjusted operating profit before tax continued

For the year ended 31 December 2020	Asset Management		Retail and Savings			Corporate Centre
	Core Asset Management £m	Performance fees[i] and investment income £m	Wealth £m	Heritage £m	Other £m	Other £m
Fee-based revenue	947	42	107	74	50	–
Annuity margin	–	–	–	438	–	–
With-profits shareholder transfer net of hedging and other gains/losses	–	–	19	202	–	–
Adjusted operating income	947	42	126	714	50	–
Asset management operating expenses	(669)	–	–	–	–	–
Other operating expenses	–	–	(131)	(79)	(40)	(101)
Adjusted operating expenses	(669)	–	(131)	(79)	(40)	(101)
Other shareholder profit/(loss)	–	4	(6)	64	3	(142)
Share of profit from joint ventures and associates	10	–	–	–	–	–
Adjusted operating profit attributable to non-controlling interests	(4)	–	–	–	–	–
Adjusted operating profit/(loss) before tax	284	46	(11)	699	13	(243)

i Includes carried interest.

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

For the year ended 31 December	2021 £m	2020 £m
Return on excess assets and margin release	**172**	188
Asset trading and other optimisation	**10**	59
Longevity assumption changes	**125**	217
Mismatching (losses)/profits[i]	**(6)**	38
Other assumption and model changes[ii]	**10**	(52)
Experience variances and model improvements	**12**	19
Other provisions and reserves	**46**	(31)
Annuity margin	**369**	438

i Mismatching losses of £6m for the year ended 31 December 2021 (2020: £38m profits) 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 £10m for the year ended 31 December 2021 (2020: £(52)m) 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	2021 £m	2020 £m
Adjusted operating profit before tax	**721**	788
Short-term fluctuations in investment returns	**(537)**	678
Profit/(loss) on disposal of business and corporate transactions	**35**	–
Restructuring and other costs	**(146)**	(73)
Amortisation of intangible assets acquired in business combinations[i]	**(4)**	–
IFRS profit before tax attributable to non-controlling interests	**12**	4
IFRS profit before tax attributable to equity holders	**81**	1,397
Tax credit/(charge) attributable to equity holders	**11**	(255)
IFRS profit after tax attributable to equity holders	**92**	1,142

i Amortisation of intangibles relates to the acquisition of PPMSA in July 2021.

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

1.3 (i) Detailed AUMA and net client flows

For the year ended 31 December	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
	2021					
Institutional Asset Management	**85.5**	**16.2**	**(10.4)**	**5.8**	**11.8**	**103.1**
Retail Asset Management	**58.1**	**14.9**	**(18.7)**	**(3.8)**	**(1.6)**	**52.7**
Other	**0.8**	**–**	**–**	**–**	**0.1**	**0.9**
Total Asset Management[i]	**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[ii]	**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	**367.2**	**39.1**	**(45.4)**	**(6.3)**	**9.1**	**370.0**

i Included in total AUMA of £156.7 billion (2020: £144.4 billion) is £7.9 billion (2020: £6.5 billion) of assets under advice.

ii Included in market/other movements for the year ended 31 December 2021 is £9.6 billion relating to the Part VII transfer of annuity business to Rothesay Life PLC. Refer to Note 2.2.1 for further details.

For the year ended 31 December	As at 1 January 2020 £bn	Gross inflows £bn	Gross outflows £bn	Net client flows £bn	Market/ Other movements £bn	As at 31 December 2020 £bn
	2020					
Institutional Asset Management	76.8	13.0	(7.9)	5.1	3.6	85.5
Retail Asset Management	68.4	14.8	(26.7)	(11.9)	1.6	58.1
Other	0.7	–	–	–	0.1	0.8
Total Asset Management[i]	145.9	27.8	(34.6)	(6.8)	5.3	144.4
Wealth	61.8	6.3	(6.2)	0.1	17.6	79.5
of which: PruFund	48.5	4.7	(4.4)	0.3	1.2	50.0
Heritage	134.0	0.4	(7.0)	(6.6)	6.3	133.7
of which: shareholder annuities	35.5	–	(1.8)	(1.8)	1.6	35.3
of which: traditional with-profits	84.8	0.3	(5.0)	(4.7)	4.2	84.3
Other Retail and Savings	8.2	0.7	(0.6)	0.1	0.1	8.4
of which: PruFund	5.3	0.5	(0.4)	0.1	0.1	5.5
Total Retail and Savings	204.0	7.4	(13.8)	(6.4)	24.0	221.6
Corporate assets	1.6	–	–	–	(0.4)	1.2
Group total	351.5	35.2	(48.4)	(13.2)	28.9	367.2

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

1.3 (ii) AUMA by asset class

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

i On balance sheet AUMA does not include consolidated funds included in the segmented statement of financial position by business type in Note 33.1.

ii Derivatives assets are shown net of derivative liabilities.

iii Included in total AUMA of £370.0 billion (2020: £367.2 billion) is £7.9 billion (2020: £6.5 billion) of assets under advice.

	2020									
	On balance sheet AUMA[i]					External AUMA				Total
For the year ended 31 December	With-profits £bn	Unit-linked £bn	Shareholder-backed annuities and other long-term business £bn	Corporate assets £bn	Total on balance sheet AUMA £bn	Wealth £bn	Retail £bn	Institutional £bn	Total external AUMA £bn	Total AUMA £bn
Investment property	12.4	0.4	1.5	–	14.3	0.1	1.4	12.9	14.4	28.7
Reinsurance assets	–	0.1	11.6	–	11.7	–	–	–	–	11.7
Loans	1.6	–	2.3	–	3.9	–	–	11.5	11.5	15.4
Derivatives[ii]	2.7	–	(0.3)	–	2.4	–	(0.1)	(0.2)	(0.3)	2.1
Equity securities and pooled investment funds	65.1	11.2	–	–	76.3	3.6	22.1	6.1	31.8	108.1
Deposits	13.4	1.0	1.2	–	15.6	–	–	–	–	15.6
Debt securities	43.4	2.8	20.2	1.0	67.4	2.5	32.5	52.7	87.7	155.1
of which Corporate	31.7	1.7	14.1	1.0	48.5	2.5	17.7	32.2	52.4	100.9
of which Government	9.0	1.0	5.3	–	15.3	–	13.7	12.2	25.9	41.2
of which ABS	2.7	0.1	0.8	–	3.6	–	1.1	8.3	9.4	13.0
Cash and Cash equivalents	3.6	0.2	1.0	0.9	5.7	–	2.2	2.5	4.7	10.4
Other	1.0	0.1	0.2	–	1.3	–	–	–	–	1.3
Other AUMA										18.8
Total[iii]	143.2	15.8	37.7	1.9	198.6	6.2	58.1	85.5	149.8	367.2

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

1.3 (iii) AUMA by geography

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

For the year ended 31 December	2021 £bn	2020 £bn
UK	**299.9**	306.9
Rest of Europe	**48.3**	44.6
Asia-Pacific	**9.5**	9.6
Middle East and Africa	**11.0**	5.2
Americas	**1.3**	0.9
Total AUMA[i]	**370.0**	367.2

i Included in total AUMA of £370.0 billion (2020: £367.2 billion) is £7.9 billion (2020: £6.5 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.

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

As at 31 December	2021 £bn	2020 £bn
IFRS shareholders' equity	**5.3**	5.6
Add back unallocated surplus of the With-Profits Fund	**16.7**	15.6
Deduct goodwill and intangible assets	**(1.4)**	(1.3)
Net impact of valuing policyholder liabilities and reinsurance assets on Solvency II basis	**(0.3)**	0.3
Impact of introducing Solvency II risk margin (net of transitional measures)	**(1.1)**	(1.5)
Impact of measuring assets and liabilities in line with Solvency II principles	**0.2**	(0.1)
Recognise own shares	**0.1**	0.1
Other	**–**	(0.1)
Solvency II excess of assets over liabilities	**19.5**	18.6
Subordinated debt capital	**3.7**	4.0
Ring-fenced fund restrictions	**(7.8)**	(7.0)
Deduct own shares	**(0.1)**	(0.1)
Solvency II eligible own funds	**15.3**	15.5

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 requirement from the With-Profits Fund is restricted as these amounts are not available to meet losses elsewhere in the Group.

1.4 Solvency II capital position continued

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	2021 £bn	2020 £bn
Tier 1 (unrestricted)	**11.5**	11.4
Tier 1 (restricted)	**–**	–
Tier 2	**3.7**	4.0
Tier 3	**0.1**	0.1
Total own funds	**15.3**	15.5

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. The details of the Group's subordinated liabilities are shown in Note 27 of the consolidated financial statements. 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 £0.1bn (2020: £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	2021 £bn	2020 £bn
Shareholder Solvency II own funds	**11.4**	10.6
Shareholder Solvency II SCR	**(5.2)**	(5.8)
Solvency II surplus	**6.2**	4.8
Shareholder Solvency II coverage ratio[i]	**218%**	182%

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. At 31 December 2020, the recalculated transitional measures did not align to the latest approved regulatory position and therefore the estimated and unaudited Solvency II capital position differed to 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 of the transitional measures has been approved for the reporting date and, as such, the positions are aligned.
- 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.

1.4 Solvency II capital position continued

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	2021 £bn	2020 £bn
Equity	1.7	1.5
Property	0.9	0.9
Interest rate	0.3	0.4
Credit	2.7	3.5
Currency	1.0	0.9
Longevity	1.6	2.1
Lapse	0.3	0.2
Operational and expense	1.4	1.6
Sectoral[i]	0.6	0.5
Total undiversified	**10.5**	11.6
Diversification, deferred tax, and other	(5.3)	(5.8)
Shareholder SCR	**5.2**	5.8

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.

	2021		2020	
As at 31 December	Surplus £bn	Shareholder coverage ratio %	Surplus £bn	Shareholder coverage ratio %
Base (as reported)	**6.2**	**218%**	4.8	182%
20% instantaneous fall in equity markets	5.5	208%	4.3	175%
20% instantaneous fall in property markets	5.7	211%	4.4	175%
50bp reduction in interest rates	6.1	208%	4.6	173%
100bp widening in credit spreads	5.9	218%	4.3	178%
20% credit asset downgrade[i]	5.9	211%	4.4	175%

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, SAIF 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	2021 £bn	2020 £bn
With-Profits Fund Solvency II own funds	11.6	11.9
With-Profits Fund Solvency II SCR	(3.8)	(4.9)
With-Profits Fund Solvency II surplus	**7.8**	7.0
With-Profits Fund Solvency II coverage ratio[i]	302%	242%

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

1.4 Solvency II capital position continued

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 as at is shown below:

As at 31 December	2021 £bn	2020 £bn
Solvency II own funds[i]	**15.3**	15.5
Solvency II SCR	**(9.1)**	(10.7)
Solvency II surplus	**6.2**	4.8
Solvency II coverage ratio[ii]	**168%**	144%

i As the surplus on the With-Profits Fund is not available to meet losses elsewhere in the Group, the regulatory capital position limits the contribution of the With-Profits Fund to M&G plc own funds to the level sufficient to cover its SCR, via a ring-fenced fund restriction.

ii Solvency II coverage ratio has been calculated using unrounded figures.

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 any discontinued operations.

Operating capital generation is the total capital generation before tax, adjusted to exclude market movements relative to those expected under long-term assumptions and to remove other non-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 4.00% for the year ended 31 December 2021 (2020: 3.60%). For annuity business, the assumed average return on assets backing capital was 1.15% for the year ended 31 December 2021 (2020: 2.09%).

The Group's capital generation results in respect of the years ended 31 December 2021 and 31 December 2020 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.

1.5 Capital generation continued

For the year ended 31 December	Asset Management 2021 £m	Asset Management 2020 £m	Retail and Savings 2021 £m	Retail and Savings 2020 £m	Corporate Centre 2021 £m	Corporate Centre 2020 £m	Total 2021 £m	Total 2020 £m
Underlying capital generation	**313**	311	**459**	552	**(288)**	(286)	**484**	577
Other operating capital generation	**15**	(2)	**621**	650	**(3)**	87	**633**	735
Operating capital generation	**328**	309	**1,080**	1,202	**(291)**	(199)	**1,117**	1,312
Market movements							**917**	(118)
Restructuring and other							**(181)**	(73)
Tax							**(31)**	(126)
Total capital generation							**1,822**	995

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

For the year ended 31 December		2021 Own funds[i] £m	2021 SCR[i] £m	2021 Surplus £m	2020 Own funds[i] £m	2020 SCR[i] £m	2020 Surplus £m
Underlying capital generation							
Asset Management	Asset Management	**308**	**5**	**313**	320	(9)	311
	Asset Management underlying capital generation	**308**	**5**	**313**	320	(9)	311
Retail and Savings	Wealth	**117**	**(68)**	**49**	151	(76)	75
	of which with-profits	**128**	**(68)**	**60**	163	(75)	88
	– in-force	**169**	**(57)**	**112**	151	(52)	99
	– new business	**(41)**	**(11)**	**(52)**	12	(23)	(11)
	Heritage	**185**	**193**	**378**	293	153	446
	of which with-profits	**115**	**27**	**142**	100	5	105
	of which annuity and other	**70**	**166**	**236**	193	148	341
	Other Retail and Savings	**36**	**(4)**	**32**	34	(3)	31
	Retail and Savings underlying capital generation	**338**	**121**	**459**	478	74	552
Corporate	Interest and head office costs	**(280)**	**(8)**	**(288)**	(288)	3	(286)
Underlying capital generation		**366**	**118**	**484**	510	68	577
Other operating capital generation		**217**	**416**	**633**	406	329	735
	of which Asset Management[ii]	**5**	**10**	**15**	13	(15)	(2)
	of which Retail and Savings	**201**	**420**	**621**	311	339	650
	of which Corporate Centre[ii]	**11**	**(14)**	**(3)**	82	5	87
Operating capital generation		**583**	**534**	**1,117**	915	397	1,312
	Market movements	**739**	**178**	**917**	283	(401)	(118)
	Restructuring and other	**(167)**	**(14)**	**(181)**	(73)	–	(73)
	Tax	**16**	**(47)**	**(31)**	(159)	33	(126)
Total capital generation		**1,171**	**651**	**1,822**	966	29	995
Dividends and capital movements		**(410)**	**(24)**	**(434)**	(644)	(39)	(683)
Total increase/(decrease) in Solvency II surplus		**761**	**627**	**1,388**	322	(10)	312

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

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

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	2021 £m	2020 £m
Total Asset Management operating expenses	**672**	669
Adjustment for revaluations[i]	**(3)**	2
Total Asset Management adjusted costs	**669**	671
Total Asset Management fee-based revenue	**976**	989
Less: Performance fees and carried interest	**(23)**	(42)
Total Asset Management underlying fee-based revenues	**953**	947
Cost/income ratio (%)	**70%**	71%

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.

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.

	2021			2020[iii]		
For the year ended 31 December	**Average AUMA[i] £bn**	**Revenue[ii] £m**	**Revenue margin[iii] bps**	Average AUMA[i] £bn	Revenue[ii] £m	Revenue margin[iii] bps
Retail Asset Management	**53**	**316**	**59**	61	426	70
Institutional Asset Management	**93**	**334**	**36**	80	293	37
Internal	**157**	**303**	**19**	123	228	18
Total Asset Management	**303**	**953**	**32**	264	947	36

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

ii Fee margin is calculated by annualising underlying fee-based revenues earned, which excludes performance fees and carried interest, in the period divided by average AUMA for the period.

iii Comparatives for 2020 have not been restated for the change in segmentation in 2021.

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 in Note 33.1 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. Further detail on the Group's exposure to credit risk on the annuity portfolio is included in Note 33.2.

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	**2021 £m**	2020 £m
Financial	**5,588**	6,317
Government	**4,861**	5,354
Real Estate	**2,830**	3,036
Utilities	**2,467**	2,727
Consumer	**817**	967
Industrial	**617**	709
Communications	**365**	431
Other	**721**	733
Total	**18,266**	20,274

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Scenario modelling and climate metrics

Overview

Our modelling partners have provided portfolio, sector, and asset level output data to us including future GHG emissions, emissions intensity, energy flows, energy demand, and technological capabilities. These data points have then been aggregated to calculate a Value at Risk metric and Temperature Alignment metric for the portfolio. With these results we hope to improve our systematic approach to identifying and evaluating climate-related risks, at a counterparty, sector, and portfolio level.

Limitations of scenario analysis

As with any model, a wide range of assumptions which may or may not be true in practice underpin the calculated results. Predicting climate change and its impacts on individual securities is an inherently complex exercise that needs to encapsulate not only the future climate, but also how companies will react to regulatory and customer pressures, changes to global supply and demand, and how companies will endeavour to protect their businesses in transition. We recognise that there is a practically zero probability that all assumptions made will be exactly correct, and therefore do not interpret the results provided by our modelling partners as absolute truth. Rather, scenario analysis is a useful tool for interrogating and understanding how different scenarios could feasibly impact our portfolios, and identifying key factors which could impact specific assets or groups of assets.

Data limitations of scenario analysis

For most equities and debt securities modelled M&G plc has used company-specific data sourced from Bloomberg. Many publicly listed companies are measuring and publicly reporting their emissions which are a required datapoint for the calculation of climate-related metrics. However amongst smaller and privately owned companies this data is not commonly reported. M&G plc recognises that waiting for the data availability to reach 100% is not necessary to carry out a meaningful suite of analysis and there are a number of options for estimating missing data. Due to a lack of directly sourced data where we have used industry, sector and geography proxy data for a small proportion of counterparties, some outputs will be less accurate for these companies than if company-specific data was used. However, without this proxy data, the counterparties would have to be dropped from the model run entirely.

Furthermore, ESG data reporting by companies is often reported at a lag relative to other financial data. We have used the most up-to-date data available in all cases, however for a subset of analysis GHG emissions used in the scenario analysis represents data from prior years. Where available, scenario modelling is based on the most up-to-date financial and emissions data. For most companies this will include 2020 results which in some cases will be significantly impacted by COVID-19. In particular, GHG emissions may be artificially suppressed owing to a year of restricted activity, and where these have been projected forwards as part of the scenario analysis could result in companies appearing to be better aligned than if this analysis had been conducted a year earlier.

Moving forward, we are actively exploring options to further improve the amount of data we can estimate, and the accuracy of those estimates, to ensure that we can continue to improve the scope of our modelling.

For real estate modelling we hold the required data internally, resulting in robust data inputs to the model. The key limitations are missing longitude/latitude for some properties (in which case address details were used to approximate the location) and missing reinstatement values for some properties (in which case an assumption was made that reinstatement value is 50% of the asset value. This was benchmarked against data for which we hold reinstatement values).

Implied temperature rise/temperature alignment

As part of our scenario modelling we have calculated the Implied Temperature Rise (ITR) for each individual counterparty. ITRs are a fairly intuitive way to place a single number on a company that encapsulates their contribution to global warming, essentially showing what global warming would be if all companies showed the same emissions pathways. As a result of its simplicity, ITRs are inherently limited and we recognise:

- There is no common definition of what ITR means and calculations are typically opaque in terms of their methodology and key assumptions:
- The methodology we have used allocates a carbon budget to each company and compares that company's progress to date and expected progress against that budget. The calculation is therefore primarily sensitive to sector, geography and GHG emissions over the last 5 years
- It is based on emissions intensity (emissions per unit of revenue for each counterparty)
- The portfolio ITR is calculated as the weighted average of individual company ITRs

The results are subject to the data limitations set out above, and in particular for ITR calculations projecting future emissions based on historical emissions is unlikely to capture the full picture. Going forwards we expect independently validated climate targets to play a key role in calculating ITRs.

Conclusions

Despite the limitations inherent in scenario modelling, we recognise its value as a tool for understanding our exposure to climate risk. Our modelling counterparties are industry-leaders in climate scenario modelling and we have used their services for other disclosures. Modelling climate risk on a consistent basis provides a snapshot of counterparty-level risk to climate impacts and allows the evaluation of counterparty resilience to a range of shocks representing feasible future states of the world. In doing so, climate scenario modelling supports our understanding of climate risk across the business and ultimately will inform our approach to climate-related investment decision making in the future.

Baringa model

Equities and debt securities exposures were analysed leveraging the Climate Change Scenario Model, which was developed by Baringa Partners and acquired by BlackRock in June 2021.

Limitations of the equities and debt securities climate change model

At the counterparty and portfolio level, the model assumes a constant balance sheet. Assumptions are necessary for the production of the model, however it is important to note that they do impact the accuracy of results, to an extent. One of the other limitations of the equities and debt securities climate change model is the timeline. The model provides outputs up to 30 years in the future, and while this helps to give a prediction of value at risk in 2050, the further into the future the model reaches, the less accurate it becomes.

This model in particular only takes into account Scope 1 & 2 GHG Emissions. There are some sectors, such as oil and gas, that are known to be significant climate contributors owing to high Scope 3 emissions, but which come off relatively lightly in the analysis as a result. Measurement and reporting of Scope 3 emissions is expected to improve over the next few years and will be incorporated into the analysis in future.

The companies selected for scenario analysis represent the largest counterparties in our portfolio by market value, and therefore are typically geographically spread. It is difficult therefore to accurately link the materiality of corporate locations back to equities and debt in a way which accurately aggregates physical risk variance to the business.

These results have the following caveats:

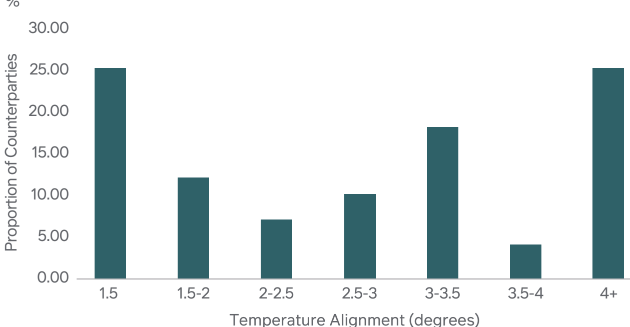
- A static asset portfolio. We did not model likely investment or asset allocation actions to mitigate these impacts. The greatest need for action would be in the 4°C scenario where we would have to carry out a material degree of reallocation across both asset classes and geographies.
- Asymmetric balance sheet modelling. We did not model our liabilities or our capital position alongside our assets. The conclusions and commentary below therefore relate only to our asset portfolio.

Equity and debt security results

The assets were projected under three climate scenarios, orderly 2°C, disorderly 2°C and 4°C where no action is taken beyond currently agreed commitments. Under each scenario the model projects assumptions about the state of the world (e.g., carbon prices), translates these into financial and operational performance for each company and assesses the alignment to a specific temperature range of that company's operations by 2030. Finally, the model quantifies the impact on equity value, probability of default and security prices for each underlying security.

Temperature alignment

The analysis shows that M&G's counterparties are aligned to a broad range of temperatures. Whilst almost 25% of counterparties are projected to achieve alignment to a 1.5 °C world by 2030 (representing an undershoot vs that company's carbon budget), a similar proportion are projected to still be aligned to 4 °C or higher (representing carbon emissions significantly in excess of those required to limit global warming). The chart below shows the proportion of counterparties aligned to each temperature range:



The weighted average warming potential across counterparties is 2.7 °C (based on the counterparties modelled for scenario analysis). Some companies' emissions declined in 2020 as a result of reduced operational activity due to COVID-19, which may result in these companies appearing to make more progress towards a lower temperature alignment than would otherwise have been expected.

In general, the worst performing companies under this projection are utilities (reflecting the carbon-intensity of their operations) and financials (reflecting their investment in carbon-intensive sectors rather than their operations). The sectors with the highest proportion of companies aligned to 1.5 °C are information technology and consumer staples.

This analysis enables us to identify companies that are leaders and laggards in carbon emissions via a simple metric, which aids comparison and input into investment research and decision making. It can be considered a guide identifying sector leaders and engagement with the laggards to ultimately bring them into alignment.

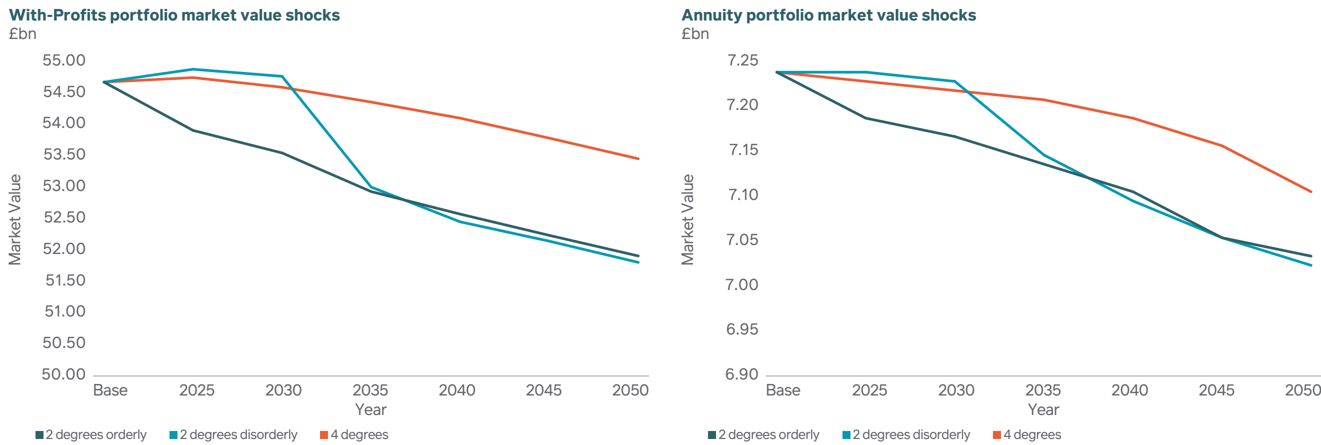
Results on asset owner portfolios

We present our asset owner results at the portfolio level, as we have modelled the assets held within our largest With-Profits fund asset pool and our largest shareholder annuity portfolio. All assets included in the model are managed by our internal asset manager, and therefore these results form a sub-set of the overall M&G plc scenario analysis results.

We have therefore combined the shocks on asset classes together as held proportionately within each portfolio. Despite the partial data coverage, this gives an indication of how each portfolio might behave in each scenario.

For both our With-Profits and shareholder annuity portfolios, we suffer the greatest downside impact in the disorderly 2°C scenario, followed by the orderly 2°C scenario, with the 4°C scenario having the least impact on valuations. This is because we have concentrated on modelling first order impacts on companies, (e.g. carbon prices) and not necessarily modelled potential second order impacts (such as demand factors driven from GDP changes). This model is also limited by the 2050 timeline, after which, the effects felt as a result of physical risk may be more severe.

Our portfolios have material weights towards certain sectors (industrials, mining and utilities) that would perform badly in an orderly 2°C scenario, as the significant investment required to adapt and the increased carbon prices would affect these companies' profitability. Conversely, in a 4°C scenario, these companies remain profitable without the pressure on margins arising from increased investment spend.



In the orderly 2°C scenario, downside impacts to asset values arise immediately and are broadly linear towards 2050, as companies' profitability is affected by the need to adapt to climate change. In the disorderly 2°C scenario, downside impacts to asset values are initially mild but then become greater after 2030, as greater investment is needed to adapt to climate change. Eventually, by 2050, asset values are lower in the disorderly 2°C scenario compared to the orderly 2°C scenario. Asset values decline linearly in the 4°C scenario, but at a lower rate than in the orderly 2°C scenario.

The assets under greatest pressure in the 2°C scenarios are equities and property, which are exposed to greater transition and physical risk than our debt security investments. Within our equity portfolios, the assets that are exposed to greatest downside are our holdings in industrials, materials and energy, as companies operating in this sector are exposed to transition risk in the 4°C scenario, the sector most exposed to downside impacts is consumer discretionary, with industrials, materials and energy performing relatively better. Material physical risk impacts also reduce our property values, and corresponding increases in credit spreads reduce our debt security investments values.

Climate metrics

What data sources have been used

The climate metric calculations have been undertaken by utilising data sets from Morgan Stanley Capital International (MSCI) covering the following:

- Scope 1 & 2 carbon emissions
- Enterprise value including cash (EVIC)

These have been applied using market value from the relevent security datasets.

These metrics are caveated by their coverage. Coverage is the percentage of market value that we have both emissions and EVIC data (and therefore can calculate financed carbon emissions) for the Equity and debt security AUMA. Where these data sets are not available these have been estimated based on data from similar businesses. As a result our climate metrics are based on 85% reported emissions, with the remaining 15% being estimated.

Marsh model

Limitations of Marsh model (real estate)

The real estate model uses baseline climate peril data to model climate perils globally. In some geographies there is limited data and incomplete historical monitoring, and so the model is enhanced using simulated events set to forecast the impact of projected climate perils. Akin to the equities and debt securities climate change model, the view provided by the real estate modelling assumes a number of key factors remain constant, in particular the current level of national defence mitigations is assumed to remain unchanged going forwards. Although national defences may be upgraded in the future this is not considered within forecasted physical climate risk projections.

Real estate results

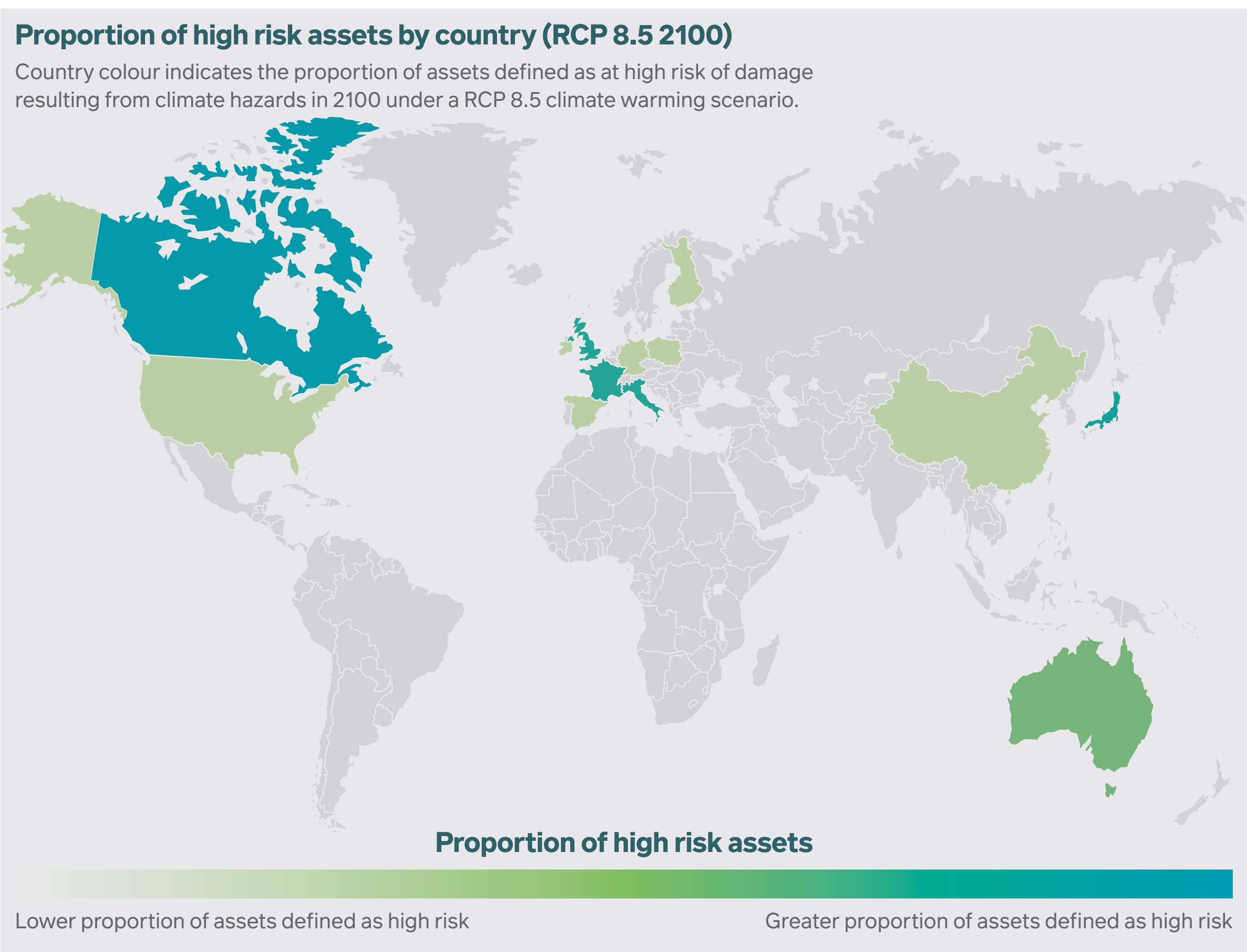
Under the RCP8.5 (4°C) scenario, the 11.3% of assets (99 distinct assets) represents approximately 7.9% of the assets measured by reinstatement value. The table below sets out the top 10 highest risk assets in the portfolio.

Country	Reinstatement Value (£m)	Risk Exposure (RCP8.5 2100)	Value x Exposure
Denmark	439	20.6%	90
United Kingdom	126	21.1%	27
United Kingdom	108	21.1%	23
Sweden	270	5.8%	16
United Kingdom	73	21.2%	16
United Kingdom	73	21.1%	15
Sweden	1,214	0.9%	11
United Kingdom	52	21.3%	11
United Kingdom	44	21.2%	9
United Kingdom	35	21.1%	7

This list includes both assets exposed to a high amount of risk, and high value assets exposed to a low or medium level of risk. It is clear from this table that the risk is fairly concentrated over a small number of such assets. The riskiness of UK assets (measured at the year 2100 under the RCP8.5 scenario) are all similar, representing the limited range of physical climate risks the UK is exposed to. 83.3% of M&G's aggregated climate-related exposure is contained in five countries: UK, Denmark, Canada, Sweden and Japan.

Whilst our scenario analysis has identified areas of higher risk exposure within our portfolio, our modelling approach accounts only for the current level of national defence mitigations. National defences may be upgraded in the future and, therefore, this approach contains some limitations. Where hot-spots have been identified, we will undertake further analysis to evaluate asset specific exposure and climate resilience. Over time, we seek to account for improvements in national defences and climate resilience programmes in our analysis. . For example, in 2021 M&G plc undertook an analysis of the impact of potential Thames Barrier improvements on the risk exposure of London properties, and over time will integrate such analysis into our scenario modelling.

The chart below shows the proportion of assets within each country at high risk



Note that some of these regions contain a small number of assets and therefore the weighting for that region can be swayed by one or two high risk scores. The majority of asset exposures, and therefore risk, is contained within the UK.

This initial view of our exposure to climate risk across a significant proportion of our property portfolio, will inform risk mitigation strategies to reduce exposure, increase resilience, and develop potential transition opportunities to enhance the resilience of our portfolios. We plan to do this through:

- Iteratively enhancing our scenario analysis modelling, including extension of the model to other asset classes, development of our own bespoke climate scenarios, and a focus on our most at-risk physical assets.
- Embedding the assessment of climate risk exposure and impact for any new assets as part of the investment decision-making process.

M&G plc maintains a corporate website containing a wide range of information relevant for private and institutional investors, including the Company's financial calendar: www.mandgplc.com

Annual General Meeting

M&G plc's Annual General Meeting (AGM) is expected to be held at our offices at 10 Fenchurch Avenue, London EC3M 5AG on 25 May 2022 at 10:00. A poll will be called on all resolutions and the voting results, including all proxies lodged prior to the meeting, will be displayed at the meeting and subsequently published on the Company's website. Full details will be included in the AGM Notice.

In accordance with relevant legislation, shareholders holding 5% or more of the fully paid up issued share capital are able to require the Directors to hold a general meeting. Written shareholder requests should be addressed to the General Counsel and Company Secretary at the registered office.

Documents on display

The terms and conditions of all Directors' appointments are available for inspection at the Company's registered office during normal business hours and at the AGM. Inspection of these documents may also be undertaken virtually. Please email Group Secretariat at GroupSecretariat@mandg.com if you wish to view any of these documents and arrangements will be made with you.

Company constitution

M&G plc is governed by the Companies Act 2006, other applicable legislation and regulations, and provisions in its Articles of Association (Articles) which are available on the Company's website. The Company's Articles state that the Board may appoint Directors but that those Directors are required to offer themselves up for re-election annually at the AGM. The Articles can only be amended with shareholder approval.

Electronic communications

Shareholders are encouraged to elect to receive shareholder documents electronically by registering with Shareview at www.shareview.co.uk. This will save on printing and distribution costs, and create environmental benefits. Shareholders who have registered will be sent an email notification whenever shareholder documents are available on the Company's website and a link will be provided to that information. When registering, shareholders will need their shareholder reference number which can be found on their share certificate or other correspondence from the Company.

Please contact Equiniti if you require any assistance or further information.

Share dealing services

The Company's registrar, Equiniti, offer a postal dealing facility for buying and selling M&G plc ordinary shares; please see the Equiniti address opposite. They also offer a telephone and internet dealing service, Shareview, which provides a simple and convenient way of selling M&G plc shares. For telephone sales, call +44 (0)345 603 7037 between 08:00 and 16:30, Monday to Friday, and for internet sales log on to: www.shareview.co.uk/dealing.

ShareGift

Shareholders who have only a small number of shares, the value of which makes them uneconomic to sell, may wish to consider donating them to ShareGift (Registered Charity 1052686).

The relevant share transfer form may be obtained from Equiniti.

Further information about ShareGift may be obtained on +44 (0)20 7930 3737 or from www.ShareGift.org.

Shareholder enquiries

For enquiries about shareholdings, including dividends and lost share certificates, please contact the Company's registrar:

Registrar

M&G plc's share register is managed and administered by Equiniti.

By post

Equiniti Limited, Aspect House, Spencer Road Lancing, West Sussex, BN99 6DA, UK

By telephone

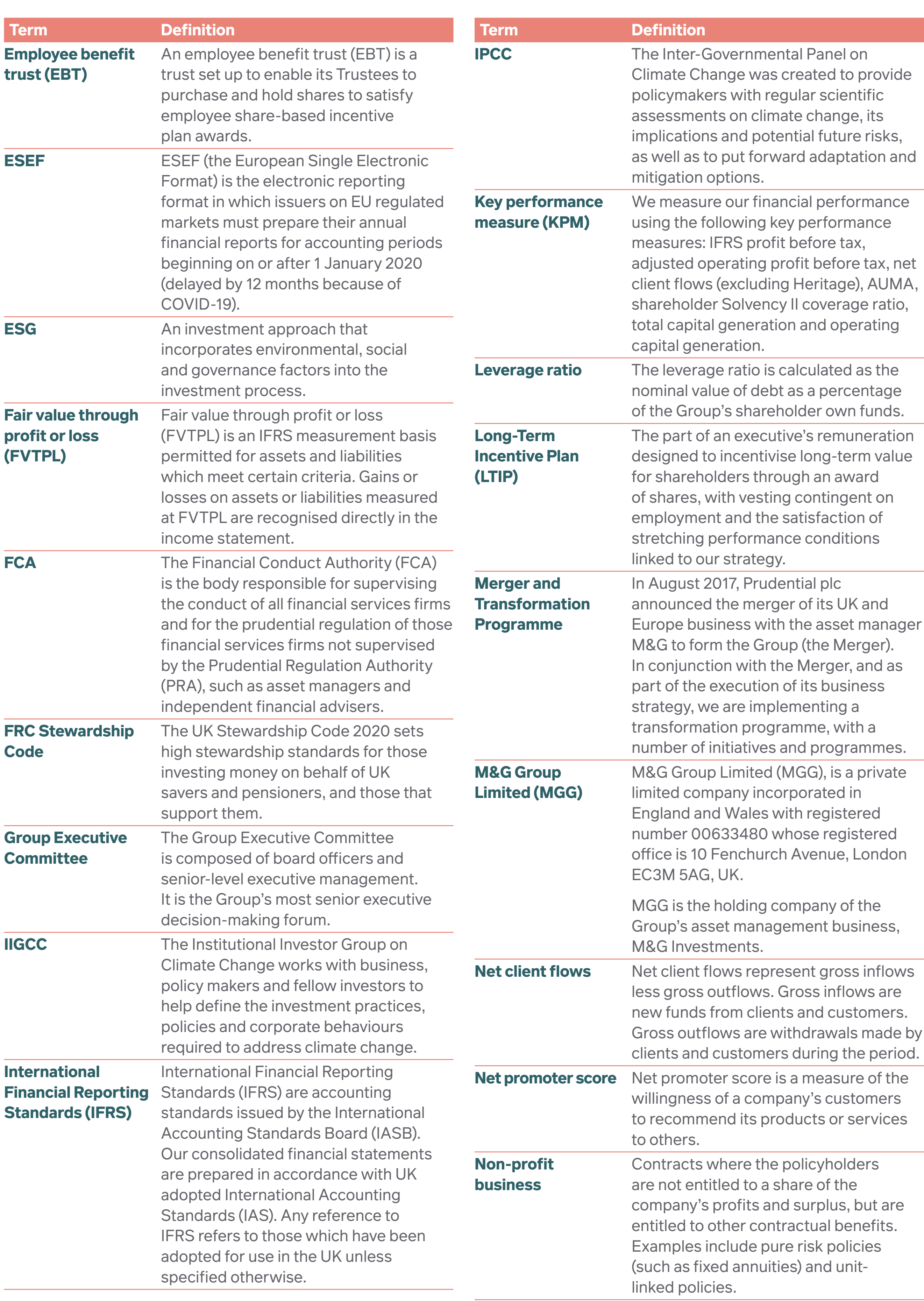
Tel +44 (0)371 384 2543

Lines are open from 08:30 to 17:30 (UK), Monday to Friday.

International shareholders
Tel +44 (0)121 415 0280

Term	Definition
ABI	The Association of British Insurers.
Adjusted operating profit before tax	Adjusted operating profit before tax is one of our key alternative performance measures. It is defined in the key performance measures section on page 301.
Ascentric	Platform business purchased from Royal London in 2020, now M&G Wealth Platform. Legal entity name Investment Funds Direct Limited (IFDL).
Alternative performance measure (APM)	An alternative performance measure (APM) is a financial measure of historic or future financial performance, financial position or cash flows, other than a financial measure defined under IFRS or under Solvency II regulations.
Asset-backed security (ABS)	A security whose value and income payments are derived from and collateralised (or backed) by a specified pool of underlying assets. The pool of assets is typically a group of small and illiquid assets that are unable to be sold individually.
Asset Management cost/income ratio	The Asset Management cost/income ratio represents total operating expenses, excluding revaluation of provisions for employee performance awards divided by total fee-based revenues, excluding performance fees.
Assets under management and administration (AUMA)	Assets Under Management and Administration represents the total market value of all financial assets managed, administered or advised on behalf of customers and clients.
Average fee margin	The average fee margin is calculated from fee-based revenues earned in the period, excluding performance fees, divided by average AUMA for the period. It demonstrates the revenue margin that was earned on the assets we manage and administer.
Board	The Board of Directors of the Company.

Term	Definition
Bonuses	Bonuses refer to the non-guaranteed benefit added to participating life insurance policies and are the way in which policyholders receive their share of the profits of the policies. There are normally two types of bonus: – Regular bonus: expected to be added every year during the term of the policy. It is not guaranteed that a regular bonus will be added each year, but once it is added, it cannot be reversed, also known as annual or reversionary bonus; and – Final bonus: an additional bonus expected to be paid when policyholders take money from the policies. If investment return has been low over the lifetime of the policy, a final bonus may not be paid. Final bonuses may vary and are not guaranteed.
Brexit	The term used to refer to the UK's departure from the European Union.
Chief Operating Decision Maker	The Group Executive Committee.
CDP	The global disclosure organisation – the Carbon Disclosure Project (CDP). Our CDP score is an indicator of how we measure, disclose and manage our carbon emissions footprint, and achieving this leadership level rating shows our commitment to address climate change across our business.
Company/Parent Company	M&G plc, a public limited company incorporated in England and Wales with registered number 11444019 whose registered office is 10 Fenchurch Avenue, London EC3M 5AG, UK.
COP	For nearly three decades the UN has been bringing together almost every country on earth for global climate summits – called COPs – which stands for 'Conference of the Parties'.
Demerger	The demerger from the Prudential Group in October 2019.
Director	A Director of the Company.
Earnings per share (EPS)	Earnings per share (EPS) is a commonly used financial metric which can be used to measure the profitability and strength of a company over time. EPS is calculated by dividing profit after tax by the number of ordinary shares. Basic EPS uses the weighted average number of ordinary shares outstanding during the year. Diluted EPS adjusts the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares, such as share options awarded to employees.



Term	Definition
Employee benefit trust (EBT)	An employee benefit trust (EBT) is a trust set up to enable its Trustees to purchase and hold shares to satisfy employee share-based incentive plan awards.
ESEF	ESEF (the European Single Electronic Format) is the electronic reporting format in which issuers on EU regulated markets must prepare their annual financial reports for accounting periods beginning on or after 1 January 2020 (delayed by 12 months because of COVID-19).
ESG	An investment approach that incorporates environmental, social and governance factors into the investment process.
Fair value through profit or loss (FVTPL)	Fair value through profit or loss (FVTPL) is an IFRS measurement basis permitted for assets and liabilities which meet certain criteria. Gains or losses on assets or liabilities measured at FVTPL are recognised directly in the income statement.
FCA	The Financial Conduct Authority (FCA) is the body responsible for supervising the conduct of all financial services firms and for the prudential regulation of those financial services firms not supervised by the Prudential Regulation Authority (PRA), such as asset managers and independent financial advisers.
FRC Stewardship Code	The UK Stewardship Code 2020 sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them.
Group Executive Committee	The Group Executive Committee is composed of board officers and senior-level executive management. It is the Group's most senior executive decision-making forum.
IIGCC	The Institutional Investor Group on Climate Change works with business, policy makers and fellow investors to help define the investment practices, policies and corporate behaviours required to address climate change.
International Financial Reporting Standards (IFRS)	International Financial Reporting Standards (IFRS) are accounting standards issued by the International Accounting Standards Board (IASB). Our consolidated financial statements are prepared in accordance with UK adopted International Accounting Standards (IAS). Any reference to IFRS refers to those which have been adopted for use in the UK unless specified otherwise.
IPCC	The Inter-Governmental Panel on Climate Change was created to provide policymakers with regular scientific assessments on climate change, its implications and potential future risks, as well as to put forward adaptation and mitigation options.
Key performance measure (KPM)	We measure our financial performance using the following key performance measures: IFRS profit before tax, adjusted operating profit before tax, net client flows (excluding Heritage), AUMA, shareholder Solvency II coverage ratio, total capital generation and operating capital generation.
Leverage ratio	The leverage ratio is calculated as the nominal value of debt as a percentage of the Group's shareholder own funds.
Long-Term Incentive Plan (LTIP)	The part of an executive's remuneration designed to incentivise long-term value for shareholders through an award of shares, with vesting contingent on employment and the satisfaction of stretching performance conditions linked to our strategy.
Merger and Transformation Programme	In August 2017, Prudential plc announced the merger of its UK and Europe business with the asset manager M&G to form the Group (the Merger). In conjunction with the Merger, and as part of the execution of its business strategy, we are implementing a transformation programme, with a number of initiatives and programmes.
M&G Group Limited (MGG)	M&G Group Limited (MGG), is a private limited company incorporated in England and Wales with registered number 00633480 whose registered office is 10 Fenchurch Avenue, London EC3M 5AG, UK. MGG is the holding company of the Group's asset management business, M&G Investments.
Net client flows	Net client flows represent gross inflows less gross outflows. Gross inflows are new funds from clients and customers. Gross outflows are withdrawals made by clients and customers during the period.
Net promoter score	Net promoter score is a measure of the willingness of a company's customers to recommend its products or services to others.
Non-profit business	Contracts where the policyholders are not entitled to a share of the company's profits and surplus, but are entitled to other contractual benefits. Examples include pure risk policies (such as fixed annuities) and unit-linked policies.

Term	Definition
NZAOA	Convened by the UN, the Net-Zero Asset Owner Alliance seeks to transform member investment portfolios to net zero GHG emissions by 2050.
NZIF	The Net Zero Investment Framework, published in March 2021, provides a common set of recommended actions, metrics and methodologies through which investors can maximise their contribution to achieving global net zero global emissions by 2050 or sooner.
Operating capital generation	Operating capital generation is the total capital generation before tax, adjusted to exclude market movements relative to those expected under long-term assumptions and to remove other non-operating items, including shareholder restructuring costs.
Own funds	Own funds refers to the Solvency II measure of capital available to meet losses, and is based on our assets less liabilities, subject to certain restrictions and adjustments.
Paris Agreement	The Paris Agreement is an agreement within the United Nations Framework Convention on climate change, dealing with greenhouse gas emissions mitigation, adaptation, and finance, agreed in 2015.
PRA	The Prudential Regulation Authority (PRA) is the body responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.
PPMSA	On 4 July 2021, M&G FA Limited, a wholly-owned subsidiary of M&G plc, acquired a controlling stake in Prudential Portfolio Managers (South Africa) (Pty) Ltd (PPMSA). We previously accounted for the investment as an associate using the equity method. As we now have a controlling interest, the acquisition has been accounted for using the acquisition accounting method.
Prudential Assurance Company (PAC)	The Prudential Assurance Company Limited, a private limited company incorporated in England and Wales with registered number 00015454 whose registered office is 10 Fenchurch Avenue, London EC3M 5AG, UK.
PruFund	Our PruFund proposition provides our retail customers with access to smoothed savings contracts with a wide choice of investment profiles.
SASB	The Sustainability Accounting Standards Board is an ESG guidance framework that sets standards for the disclosure of financially material sustainability information by companies to their investors.

Term	Definition
SBTI	Science Based Targets initiative shows companies how much and how quickly businesses need to reduce their GHG emissions to prevent the worst impacts of climate change, leading them on a clear path towards decarbonisation.
Scope 1 emission	Emissions from: fuel combustion; company vehicles; fugitive emissions.
Scope 2 emission	Emissions from: purchased electricity, heat and steam.
Scope 3 emission	Emissions from: purchased goods and services; business travel; employee commuting; waste disposal; use of sold products; transportation and distribution (up and downstream); investments; leased assets; and franchises.
Scottish Amicable Insurance Fund (SAIF)	SAIF is a ring-fenced sub-fund of the With-Profits Fund following the acquisition of the mutually owned Scottish Amicable Life Assurance Society in 1997. The fund is solely for the benefit of policyholders of SAIF. Shareholders of M&G plc have no interest in the profits of this fund although they are entitled to asset management fees on this business.
SFDR	The Sustainable Finance Disclosure Regulation is designed to help institutional asset owners and retail clients understand, compare, and monitor the sustainability characteristics of investment funds by standardising sustainability disclosures.
SFDR Article 8 and 9	The intention of the article 8 and 9 labelling introduced under SFDR is to facilitate the decision making process for investors looking to invest in funds having the management of sustainability risks as a key part of their objective, and to that end it is our view that only those funds or strategies which seek to promote Environmental, Social or Governance characteristics as part of their binding investment objective should classify as article 8, with the remainder classified as mainstream funds.
Shareholder Solvency II coverage ratio	Shareholder Solvency II coverage ratio is the ratio of own funds to SCR, excluding the contribution to own funds and SCR from our ring-fenced With-Profits Fund.
SICAV	Abbreviation for Société d'investissement à capital variable (variable capital investment company). An open-ended investment fund similar to an OEIC in the UK, structured as a legally independent joint stock company. Units are issued in the form of shares.

Term	Definition
Solvency capital requirement (SCR)	SCR represents the 99.5th percentile (or 1-in-200) worst outcome over the coming year, out of 100,000 equally likely scenarios, allowing for the dependency between the risks the business is exposed to. The SCR is calculated using our Solvency II Internal Model.
Solvency II	A regime for the prudential regulation of insurance companies that was introduced by the EU on 1 January 2016.
Solvency II surplus	Solvency II surplus represents the own funds that we hold less the solvency capital requirement.
TCFD	The Task Force on Climate-Related Financial Disclosures (TCFD) was created by the Financial Stability Board to develop consistent climate-related financial risk disclosures. The FCA require all premium listed companies to disclose, on a comply or explain basis, against the recommendations of the TCFD for accounting periods beginning on or after 1 January 2021.
Total capital generation	Total capital generation is the total change in Solvency II surplus capital before dividends and capital movements, and capital generated from discontinued operations.
Total Shareholder Return (TSR)	Total Shareholder Return represents the growth in the value of a share plus the value of dividends paid, assuming that the dividends are reinvested in the Company's shares on the ex-dividend date.
Transitional measures	Transitional measures on technical provisions are an adjustment to Solvency II technical provisions, to smooth the impact of the change in the regulatory regime on 1 January 2016. This decreases linearly over 16 years following the implementation of Solvency II, but may be recalculated in certain cases, subject to agreement with the PRA.
UKSIF	The Sustainable Investment and Finance Association exists to bring together the UK's sustainable finance and investment community and support their members to expand, enhance and promote this key sector.

Term	Definition
Unallocated surplus of the With-Profits Fund	Unallocated surplus of the With-Profits Fund represents the excess of assets over policyholder liabilities that have yet to be appropriated between policyholders and shareholders.
Unit-linked policy	A policy where the benefits are determined by the investment performance of the underlying assets in the unit-linked fund.
With-profits business	Contracts where the policyholders have a contractual right to receive, at the discretion of the Company, additional benefits based the profits of the fund, as a supplement to any guaranteed benefits.
With-Profits Fund	The Prudential Assurance Company Limited's fund where policyholders are entitled to a share of the profits of the fund. Normally, policyholders receive their share of the profits through bonuses. It is also known as a participating fund as policyholders have a participating interest in the With-Profits Fund and any declared bonuses.

Registered office

M&G plc
10 Fenchurch Avenue
London
EC3M 5AG
UK

Website

www.mandgplc.com

Telephone

+44 (0)207 626 4588

Registered number

11444019

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Disclaimer on forward-looking statements

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