THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION ON THE COMPANY'S INTENTION TO CARRY OUT A SHARE BUY-BACK

8 March 2022

M&G plc full year 2021 results

Continued strengthening of operational performance
Strong capital generation to support £500m share buy-back programme
Improved fund flows and investment in growth underpin longer-term confidence

John Foley, Chief Executive, said:

"It has been another year of robust operational and financial performance, as we have delivered on all our demerger commitments including total capital generation of £2.8 billion over two years, well ahead of our original target.

"In light of this performance and our strong capital generation we are able to announce today £500 million to be returned to shareholders by way of a buy-back programme, expected to start shortly. Together with dividends paid, we will have returned £1.8 billion of capital to shareholders, equivalent to 32% of M&G's market value at demerger. Alongside this, we have achieved our annual shareholder cost savings target of £145 million one year ahead of schedule.

"We have also accelerated our strategy for growth in Asset Management and M&G Wealth through a series of targeted investments and strategic acquisitions in the UK and Europe. These included an agreement for majority control of Swiss sustainable private assets manager responsAbility, the purchase of independent adviser Sandringham and a digital consumer partnership with Moneyfarm.

"Our focus remains on delivering long-term sustainable growth and attractive returns to shareholders through a balanced approach to capital management, while investing in priority areas alongside further internationalisation and modernisation of the business. I am confident that 2022 will be an inflection point for us."

Operational improvements underpin encouraging financial performance

- Adjusted operating profit before tax of £721 million (2020: £788 million), with the reduction in part due to lower benefits from changes to longevity assumptions
- Assets under management and administration increased 0.8% year on year to £370 billion, including strong net client inflows of almost £6 billion from the Institutional Asset Management franchise and continued improvement in Retail Asset Management flows
- Shareholder Solvency II coverage ratio strengthened to 218%, its highest level since demerger
- £500 million to shareholders by way of a share buy-back programme, which is expected to start shortly
- Second interim dividend of 12.2 pence per share, in line with our policy of stable or increasing dividends
- Key demerger targets completed ahead of schedule: capital generation of £2.8 billion over two years, versus original target of £2.2 billion by end 2022. Annual shareholder cost savings of £145 million achieved a year earlier than planned

Investing for growth: expanding wealth & asset management in UK and Europe

- In early 2022 we strengthened M&G Wealth with the acquisition of IFA Sandringham Financial Partners, a partnership with digital wealth platform Moneyfarm, and the acquisition of TCF Investment, a provider of model portfolio services
- Building sustainable investing capability following agreement to acquire leading impact investor responsAbility (AUMA: £3 billion) as announced in January 2022
- Expanding in Italy through the launch of Future+, a European version of our UK PruFund proposition

Governance

- Edward Braham will become Chair of the Board from 14 March 2022, and subject to regulatory approval, Kathryn McLeland will join as Chief Financial Officer in May 2022

Outlook

- Growth prospects strengthened by pipeline of new propositions, including sustainable investment offerings and Future+ in Europe - competitive differentiators to deepen relationships with key distributors
- Latest target for operating capital generation of £2.5 billion over the next three years to the end of 2024
- Shareholder Solvency II coverage ratio and operating capital generation underpin future dividend policy

Performance highlights	2021	2020
Adjusted operating profit before tax (£m)	**721**	788
IFRS profit after tax (£m)	**92**	1,142
Assets under management and administration (£bn)	**370.0**	367.2
Net client flows excluding Heritage (£bn)	**0.6**	(6.6)
Total capital generation (£m)	**1,822**	995
Shareholder Solvency II coverage ratio (%)	**218**	182

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Notes to Editors

1. The results in this preliminary announcement are prepared in accordance with UK-adopted international accounting standards, and are based on the consolidated financial statements of M&G plc.
2. The shareholder view and regulatory view of the Solvency II coverage ratio as at 31 December 2021 assumes transitional measures on technical provisions which have been recalculated using management's estimate of the impact of operating and market conditions at the valuation date.
3. Total number of M&G plc shares in issue as at 31 December 2021 was 2,599,906,866.
4. A Q&A webcast will be hosted by John Foley (CEO) and Paul Cooper (Interim CFO) on Tuesday 8 March at 10:30 GMT. You can register for the Q&A and view the investor presentation here (the presentation will be available from 07:00 GMT):
   https://mngresults.connectid.cloud/register.
   Dial in: UK freephone 0800 640 6441/ All other locations +44 203 936 2999
   Participant code: 209007
5. The person responsible for arranging the release of this announcement on behalf of M&G plc is Alan Porter, General Counsel and Company Secretary.
6. **Dividend to be paid in April 2022**

Ex-dividend date	17 March 2022
Record date	18 March 2022
Payment of dividend	28 April 2022

7. **About M&G plc**
   M&G plc is a leading international savings and investments business, managing money for both individual savers and institutional investors in 28 markets. As at 31 December 2021, we have £370 billion of AUMA, over 5 million retail customers and more than 800 institutional clients. With a heritage dating back more than 170 years, M&G plc has a long history of innovation in savings and investments, combining asset management and insurance expertise to offer a wide range of solutions. We serve our savings and insurance customers under the Prudential brand in the UK and Europe, and under the M&G Investments brand for asset management clients globally.
8. **Additional Information**
   M&G plc, a company incorporated in the United Kingdom, is the ultimate parent company of The Prudential Assurance Company Limited. The Prudential Assurance Company Limited is not affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America or Prudential plc, an international group incorporated in the United Kingdom.
9. **Forward-Looking Statements**
   This announcement may contain certain 'forward-looking statements' with respect to M&G plc and its affiliates (the "M&G Group"), its plans, its current goals and expectations relating to its future financial condition, performance, results, operating environment, strategy and objectives. Statements that are not historical facts, including statements about M&G plc's beliefs and expectations and including, without limitation, statements containing the words 'may', 'will', 'should', 'continue', 'aims', 'estimates', 'projects', 'believes', 'intends', 'expects', 'plans', 'seeks', 'outlook' and 'anticipates', and words of similar meaning, are forward-looking statements. These statements are based on plans, estimates and projections as at the time they are made, and therefore persons reading this announcement are cautioned against placing undue reliance on forward-looking statements.

By their nature, all forward-looking statements involve inherent assumptions, risk and uncertainty, as they generally relate to future events and circumstances that may be beyond M&G plc Group's control. A number of important factors could cause M&G plc's actual future financial condition or performance or other indicated results to differ materially from those indicated in any forward-looking statement.
Such factors include, but are not limited to, UK domestic and global economic and business conditions (including the political, legal and economic effects of the UK's decision to leave the European Union); market-related conditions and risk, including fluctuations in interest rates and exchange rates, the potential for a sustained low-interest rate environment, corporate liquidity risk and the future trading value of the shares of M&G plc; investment portfolio-related risks, such as the performance of financial markets generally; the policies and actions of regulatory authorities, including, for example, new government initiatives; the impact of competition, economic uncertainty, inflation and deflation; the effect on M&G plc's business and results from, in particular, mortality and morbidity trends, longevity assumptions, lapse rates and policy renewal rates; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; the impact of internal projects and other strategic actions, such as transformation programmes, failing to meet their objectives; the impact of operational risks, including risk associated with third party arrangements, reliance on third party distribution channels and disruption to the availability, confidentiality or integrity of M&G plc's IT systems (or those of its suppliers); the impact of changes in capital, solvency standards, accounting standards or relevant regulatory frameworks, and tax and other legislation and regulations in the jurisdictions in which M&G plc Group operates; and the impact of legal and regulatory actions, investigations and disputes. These and other important factors may, for example, result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits.
Any forward-looking statements contained in this document speak only as of the date on which they are made. M&G plc expressly disclaims any obligation to update any of the forward-looking statements contained in this document or any other forward-looking statements it may make, whether as a result of future events, new information or otherwise except as required pursuant to the UK Prospectus Rules, the UK Listing Rules, the UK Disclosure and Transparency Rules, or other applicable laws and regulations. Nothing in this announcement shall be construed as a profit forecast, or an offer to sell or the solicitation of an offer to buy any securities.

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Chief Executive's review

Delivering on our strategy

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 be dominated by 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 in total capital 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 announced today 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, £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. 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.

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.

Chief Executive's review continued

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 our colleagues 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.

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, will become 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.

Chief Executive's review continued

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.

Business and financial review

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 back drop 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.

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.

Business and financial review continued

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 6 of the IFRS financial information.

Business and financial review continued

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 above assume transitional measures on technical provisions which have been recalculated using management's estimate of the impact of operating and market conditions at the valuation date.

Financing and liquidity

The following table 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. Our leverage ratio of 28% at 31 December 2021 has fallen from 30% at 31 December 2020 as shareholder Solvency II own funds increased.

Business and financial review continued

Financing and liquidity continued

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.

Asset Management

Our Institutional Asset Management business continues to perform strongly with net client inflows of £5.8 billion and we have made good progress in repositioning our Retail Asset Management business for sustainable growth.

Assets under management and administration and net client flows

	Net client flows For the year ended 31 December		AUMA[i] As at 31 December	
£bn	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 the 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).

Asset Management continued

Adjusted operating profit before tax

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

	For the year ended 31 December	
£m	2021	2020
Fee-based revenue[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 revenue 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 4 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: 28bps).

The cost/income ratio for Asset Management business decreased slightly to 70% (31 December 2020: 71%) with fee-based revenue 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 revenue 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:

	For the year ended 31 December	
£m	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

The Heritage business continues to provide a solid foundation for our results, as we expand our wealth management business.

Assets under management and administration and net client flows

	Net client flows		AUMA[i]	
	For the year ended 31 December		As at 31 December	
£bn	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 acquired 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:

	For the year ended 31 December	
£m	2021	2020
Fee-based revenue	**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 revenue relates primarily to revenue 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.

Retail and Savings continued

Adjusted operating profit before tax continued

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.

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.

Retail and Savings continued

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 variance)	**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, mainly 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 over 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.

Consolidated Financial Statements

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		**12,909**	9,255
Fee income	4	**983**	1,031
Other income		**115**	61
Total revenue, net of reinsurance		**17,772**	15,216
Benefits and claims	11	**(3,551)**	(12,674)
Outward reinsurers' share of benefit and claims	11	**(8,480)**	1,477
Movement in unallocated surplus of the With-Profits Fund	11	**(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	5	**(2,884)**	(2,734)
Movements in third-party interest in consolidated funds		**(1,019)**	109
Finance costs	5	**(160)**	(167)
Total charges, net of reinsurance		**(17,146)**	(13,556)
Share of profit/(loss) from joint ventures and associates		**81**	(55)
Profit before tax[i]		**707**	1,605
Tax charge attributable to policyholders' returns	6	**(626)**	(208)
Profit before tax attributable to equity holders		**81**	1,397
Total tax charge	6	**(615)**	(463)
Less tax charge attributable to policyholders' returns	6	**626**	208
Tax credit/(charge) attributable to equity holders	6	**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)	7	**3.3**	44.4
Diluted (pence per share)	7	**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.

Consolidated statement of comprehensive income

For the year ended 31 December	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	**(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	**71**	(117)
Tax on remeasurement of defined benefit pension schemes	**(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

Consolidated statement of financial position

As at 31 December	Note	2021 £m	2020 £m
Assets			
Goodwill and intangible assets		**1,615**	1,495
Deferred acquisition costs		**94**	98
Investment in joint ventures and associates accounted for using the equity method		**469**	456
Property, plant and equipment		**2,536**	2,066
Investment property		**19,698**	19,106
Defined benefit pension asset	9	**38**	58
Deferred tax assets	6	**119**	108
Reinsurance assets	11	**1,669**	11,761
Loans		**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		**375**	418
Accrued investment income and other debtors		**2,647**	3,023
Assets held for sale[i]		**1,023**	138
Cash and cash equivalents		**6,908**	6,776
Total assets		**219,134**	228,726
Equity			
Share capital	10	**130**	130
Share premium reserve	10	**370**	370
Shares held by employee benefit trust		**(93)**	(117)
Treasury shares		**(1)**	(1)
Retained earnings		**16,550**	16,853
Other reserves		**(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	11	**63,223**	76,650
Investment contract liabilities with discretionary participation features	11	**82,743**	79,623
Investment contract liabilities without discretionary participation features	11	**14,884**	15,547
Unallocated surplus of the With-Profits Fund	11	**16,723**	15,621
Third party interest in consolidated funds		**12,636**	13,265
Subordinated liabilities and other borrowings	12	**8,930**	8,267
Defined benefit pension liability	9	**84**	170
Deferred tax liabilities	6	**1,157**	916
Current tax liabilities		**323**	276
Derivative liabilities		**2,689**	3,460
Lease liabilities		**413**	354
Other financial liabilities		**2,882**	3,391
Provisions		**138**	235
Accruals, deferred income and other liabilities		**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 held for sale and £75m of liabilities held for sale are in relation to the Group's consolidated infrastructure capital private equity vehicles.

Consolidated statement of changes in equity

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

	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		—	—	—	—	(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	8	—	—	—	—	(562)	—	(562)	—	(562)
Dividends paid to non-controlling interests		—	—	—	—	—	—	—	(2)	(2)
Shares distributed by trusts		—	—	14	—	(14)	—	—	—	—
Vested employee share-based payments		—	—	—	—	17	(17)	—	—	—
Expense recognised in respect of share-based payments		—	—	—	—	—	51	51	—	51
Shares acquired by trusts		—	—	(105)	—	—	—	(105)	—	(105)
Tax effect of items recognised directly in equity		—	—	—	—	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

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		**(35)**	(24)
Shares purchased by employee benefit trust		**—**	(105)
Dividends paid	8	**(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 2.1 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.

1 Basis of preparation and significant accounting policies

1.1 Basis of preparation

The consolidated results in this preliminary announcement have been taken from the M&G plc Group's 2021 Annual Report and Accounts which will be made available on the Company's website on 22 March 2022.

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.

The basis of preparation and significant accounting policies applicable to the consolidated financial statements can be found in the basis of preparation and significant accounting policies section of the 2021 Annual Report and Accounts.

The preliminary announcement for the year ended 31 December 2021 does not constitute statutory accounts as defined in section 435 of the Companies Act 2006. The statutory results under UK-adopted international accounting standards for full-year 2021 and under International Financial Reporting Standards (IFRS) for 2020 have been audited by KPMG LLP (''KPMG''). KPMG have reported on the 2021 consolidated financial statements and their audit report is unqualified and does not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

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

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 Basis of preparation and significant accounting policies continued

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.

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 mandatorily 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.

1 Basis of preparation and significant accounting policies continued

1.2 New accounting pronouncements continued

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.

	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.

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.

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

1 Basis of preparation and significant accounting policies continued

1.2 New accounting pronouncements continued

- 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.

2 Group structure and products

2.1 Corporate transactions

2.1.1 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**

2.1.2 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 fair value both the Group's and 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.

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

2 Group structure and products continued

2.1 Corporate transactions continued

	£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. 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.

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

A description of the main contract types written by the Group's insurance entities is provided below.

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

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

2.2.1 With-profits contracts

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

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

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

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

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

2 Group structure and products continued

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

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

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

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

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

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

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

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

Policyholders are protected from some of the 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.

2.2.1.3 SAIF with-profits contracts

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

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

2.2.2 Unit-linked contracts

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

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

2.2.3 Annuities

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

- Level annuities: provide a regular (for example, monthly) fixed annuity payment over the policyholder's life.
- Fixed increase annuities: provide for a regular annuity payment which incorporates automatic increases in annuity payments by fixed amounts over the policyholder's life.

2 Group structure and products continued

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

- 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.

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 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. 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.

3 Segmental analysis continued

3.1 Operating segments continued

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.

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[1]: 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 held solely to optimise the Solvency II capital position.

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

3 Segmental analysis continued

3.2 Adjusted operating profit before tax methodology continued

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

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

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

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

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

3.3 Analysis of Group adjusted operating profit before tax by segment

For the year ended 31 December	2021			
	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 4 include the netting of certain items that have a nil profit impact in adjusted operating profit, and the inclusion of certain revenue presented elsewhere within the IFRS income statement.

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

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

iv Restructuring and other costs excluded from adjusted operating profit includes costs that relate to the transformation of our business which are allocated to the shareholder. These differ to Restructuring costs included in the analysis of administrative and other expenses in Note 5 which include costs allocated to the Policyholder. In the year to 31 December 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 5.

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 revenue.

3 Segmental analysis continued

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

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

Adjusted operating expenses includes shareholders operating expenses incurred outside of the annuity and with-profits portfolios. Other shareholder profit/(loss) includes non-recurring costs, movements in provisions that are an expense to the shareholder and shareholder investment return earned outside of the annuity portfolio. 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 2.1.2 for further details.

4 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

5 Administrative and other expenses

For the year ended 31 December	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	**(8)**	(11)
Other contracts	**(6)**	(2)
Amortisation of deferred acquisition costs:		
Insurance contracts	**6**	7
Other contracts	**7**	9
Impairment of deferred acquisition costs	**4**	3
Depreciation of property, plant and equipment	**123**	109
Impairment of property, plant and equipment[i]	**102**	98
Amortisation of intangible assets	**25**	19
Impairment of goodwill and intangible assets	**—**	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 of certain property, plant and equipment held by the Group's infrastructure capital private equity vehicles of £73m (2020: £95m).

5 Administrative and other expenses continued

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).

6 Tax

6.1 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

6.1.1 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

6 Tax continued

6.1 Tax charged to the consolidated income statement continued

6.1.2 Tax reconciliation

	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 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 2.1.2.

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.

6.1.3 Factors that may impact the future tax rate

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

6 Tax continued

6.1 Tax charged to the consolidated income statement continued

Whilst the Two-pillar framework is not expected to have a significant impact on the future effective tax rate tax 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.

6.1.4 Use of accounting estimates and judgements

The calculation of the Group's tax charge involves a degree of estimation and judgement. The 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.

6.2 Deferred tax

Deferred tax assets and liabilities

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

Deferred tax in the statement of financial position

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

	Deferred tax assets		Deferred tax liabilities	
	2021	2020	2021	2020
	£m	£m	£m	£m
UK	**68**	92	**(960)**	(700)
Overseas	**51**	16	**(197)**	(216)
As at 31 December	**119**	108	**(1,157)**	(916)

6.2.1 Unrecognised deferred tax

Tax losses and temporary differences

At the end of the reporting period, the Group have unused tax losses of £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.

6.3 Change in corporation tax rate

On 10 June 2021, the UK Government's proposal to increase the rate of UK corporation tax from 19% to 25% with effect from 1 April 2023 was enacted into UK law. Changes in tax laws and rates may affect recorded deferred tax assets and liabilities and our effective tax rate in the future.

We expect that, in line with the rate increase, 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.

7 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

	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

	2021 Pence per share	2020 Pence per share
Basic earnings per share	**3.3**	44.4
Diluted earnings per share	**3.2**	44.0

8 Dividends

8.1 Dividends

For the year ended 31 Dec	2021		2020	
	Pence per share	£m	Pence per share	£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.

9 Defined benefit pension schemes

9.1 Background and summary economic and IAS 19 financial

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 (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.

9 Defined benefit pension schemes continued

9.1 Background and summary economic and IAS 19 financial continued

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.

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

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

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

10 Issued share capital and share premium

	2021		2020	
	Number of ordinary shares	Share capital	Number of ordinary shares	Share capital
As at 31 December		£m		£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).

11 Policyholder liabilities and unallocated surplus

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

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

11.1.1 With-profits business

The With-Profits Fund mainly contains with-profits contracts but also contains some non-profit business (annuities, unit-linked, and term assurances). The liabilities of the With-Profits Fund are accounted for on a realistic basis in accordance with the requirements of FRS 27 Life Assurance. The basis is consistent with the rules for the determination of reserves on the realistic basis under the Solvency I capital regime. Though no longer in force for regulatory purposes, these rules continue to be applied to determine with-profits contract liabilities in accordance with IFRS 4 Insurance Contracts. In aggregate, the regime has the effect of placing a market-consistent value on the liabilities of with-profits contracts, which reflects the amounts expected to be paid based on the current value of investments held by the With-Profits Fund and current circumstances. 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.

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.

11 Policyholder liabilities and unallocated surplus continued

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

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.

11 Policyholder liabilities and unallocated surplus continued

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

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.

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 2.2 for further details.

11.1.2 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.

11.1.3 Annuities and other long-term business

The majority of the policyholder liabilities in the "annuities and other long-term business" component relate to annuity contracts. The annuity liabilities are calculated as the expected value of future annuity payments and expenses, discounted by a valuation interest rate, having prudent regard to the assumptions used.

As described in Note 2.1.1, 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:

11 Policyholder liabilities and unallocated surplus continued

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

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.

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 2022.

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

Valuation interest rates

Valuation interest rates used to discount the liabilities are based on the yields as at the valuation date on the assets backing the policyholder liabilities. For fixed interest securities, the internal rate of return of the assets backing the liabilities is used. Investment properties are valued using the redemption yield. An adjustment is made to the yield on non risk-free fixed interest securities and property to reflect credit risk. The credit risk allowance comprises an amount for long-term best estimate defaults and downgrades, a provision for credit risk premium, and where appropriate an additional short-term 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.

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.

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

The following tables show the movement in policyholder liabilities and unallocated surplus of the With-Profits Fund by 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.

11 Policyholder liabilities and unallocated surplus continued

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

		Shareholder-backed funds and subsidiaries				
	With-profits sub-funds[i]	Unit-linked liabilities	Annuity and other long-term business	Total	Reinsurance asset	Net total
	£m	£m	£m	£m	£m	£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.

11 Policyholder liabilities and unallocated surplus continued

11.2 Analysis of movements in policyholder liabilities and unallocated surplus of the With-Profits Fund 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	Investment Contracts[i]	Unallocated surplus of the With-Profits Fund	Reinsurers' Share[ii]
	£m	£m	£m	£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 2.1 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		
	Policyholder liabilities[i]	Unallocated surplus of the With-Profits Fund	Reinsurance asset
For the year ended 31 December	£m	£m	£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 includes insurance contract liabilities and investment contract liabilities.

11 Policyholder liabilities and unallocated surplus continued

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

	2020		
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	(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

12 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

12.1 Subordinated liabilities

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

	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.

12 Subordinated liabilities and other borrowings continued

12.1 Subordinated liabilities continued

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.

12.1.1 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.

13 Fair value methodology

13.1 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.

13 Fair value methodology continued

13.1 Determination of fair value hierarchy 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.

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

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

	2021			
	Level 1	Level 2	Level 3	Total
As at 31 December	£m	£m	£m	£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	68	3,247	58	3,373
Equity securities and pooled investment funds	58,514	4,587	10,968	74,069
Debt securities	37,730	30,959	12,370	81,059
Total assets at fair value	**96,312**	**38,934**	**46,228**	**181,474**

13 Fair value methodology continued

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

	2020			
	Level 1	Level 2	Level 3	Total
As at 31 December	£m	£m	£m	£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	115	5,590	—	5,705
Equity securities and pooled investment funds	56,052	3,909	8,458	68,419
Debt securities	26,018	46,837	12,584	85,439
Total assets at fair value	82,185	56,336	43,368	181,889

13 Fair value methodology continued

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

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

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

	2020			
	Level 1	Level 2	Level 3	Total
As at 31 December	£m	£m	£m	£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

14 Contingencies and related obligations

14.1 Litigation, tax and regulatory matters

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

14.2 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.

14.3 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.

14 Contingencies and related obligations continued

14.3 Support for the With-Profits Fund by shareholders continued

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

- The With-Profits Fund contributed to the costs of establishing the Polish branch of PAC, and receives repayment through income from charges levied on the business. There is an obligation on the shareholders to ensure that the With-Profits Fund will be repaid in full with interest, and an amount is 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:

14.3.1 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 as at 31 December 2021 (2020: £303m) 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.

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	
		2021	2020
Assumption	Change in assumption	£m	£m
Average cost of redress	increase/decrease by 10%	**+/-10**	+/-10
Reserve rate for soft closed cases	increase/decrease by 10%	**+/- 30**	+/- 30

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.

14 Contingencies and related obligations continued

14.3 Support for the With-Profits Fund by shareholders continued

14.3.2 With-profits options and guarantees

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

15 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.
- 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.

Supplementary 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/or administration (AUMA)	KPM	Closing AUMA represents the total market value of all financial assets managed, administered or advised on behalf of customers and clients at the end of each period. Assets managed by the Group include those managed on behalf of our individual 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 solvency capital requirement (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.

Supplementary information continued

1.2 Adjusted operating profit before tax

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

	Asset Management		Retail and Savings		Corporate Centre		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
For the year ended 31 December	£m	£m	£m	£m	£m	£m	£m	£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 before tax from joint ventures in the With-Profits Fund.

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

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

i Includes carried interest.

Supplementary information continued

1.2 Adjusted operating profit before tax continued

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

	Asset Management		Retail and Savings			Corporate Centre
	Core Asset Management	Performance fees[i] and investment income	Wealth	Heritage	Other	Other
For the year ended 31 December 2020	£m	£m	£m	£m	£m	£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.

Supplementary information continued

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

1.3 (i) Detailed AUMA and net client flows

	2021					
	As at 1 January 2021	Gross inflows	Gross outflows	Net client flows	Market/ Other movements	As at 31 December 2021
For the year ended 31 December	£bn	£bn	£bn	£bn	£bn	£bn
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 2.1.1 for further details.

	2020					
	As at 1 January 2020	Gross inflows	Gross outflows	Net client flows	Market/ Other movements	As at 31 December 2020
For the year ended 31 December	£bn	£bn	£bn	£bn	£bn	£bn
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

Supplementary information continued

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					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[i]	**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[ii]	**143.0**	**16.1**	**24.5**	**3.1**	**186.7**	**6.4**	**52.7**	**103.1**	**162.2**	**370.0**

i Derivatives assets are shown net of derivative liabilities.

ii 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					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[i]	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[ii]	143.2	15.8	37.7	1.9	198.6	6.2	58.1	85.5	149.8	367.2

Supplementary information continued

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

1.3 (iii) AUMA by geography

AUMA by geography is based on the country of the underlying customer or client.

For the year ended 31 December	2021 £bn	2020 £bn
UK	**299.9**	306.9
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

	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.

Supplementary information continued

1.4 Solvency II capital position continued

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

- 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.

1.4.3 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 12. The Solvency II value of the debt differs to the IFRS carrying value due to a different basis of measurement on the respective balance sheets.

The Group's Tier 3 capital of £0.1bn (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	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:

- A 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.

Supplementary information continued

1.4 Solvency II capital position continued

1.4.4 Estimated shareholder view of the 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 %
50 bp reduction in interest rates	**6.1**	**208 %**	4.6	173 %
100 bp 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.

Supplementary information continued

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 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 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.

Supplementary information continued

1.5 Capital generation continued

	Asset Management		Retail and Savings		Corporate Centre		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
	£m	£m	£m	£m	£m	£m	£m	£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.

		2021			2020		
		Own funds[i]	SCR[i]	Surplus	Own funds[i]	SCR[i]	Surplus
For the year ended 31 December		£m	£m	£m	£m	£m	£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.

Supplementary information continued

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 revenue	**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]		
	Average AUMA[i]	Revenue	Revenue margin[ii]	Average AUMA[i]	Revenue	Revenue margin[ii]
For the year ended 31 December	£bn	£m	bps	£bn	£m	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 is small in the context of the Group. However, the shareholder is indirectly exposed to credit risk on these components through lower shareholder transfers in respect of the with-profits business and lower charges levied in respect of the "unit-linked" and "other" components of the business.

Exposure of debt securities by sector

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

As at 31 December	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