

NEWS RELEASE

15 March 2023

PRUDENTIAL PLC FULL YEAR 2022 RESULTS



A RESILIENT PERFORMANCE IN 2022, WELL POSITIONED FOR OPPORTUNITIES IN 2023 AND BEYOND

Performance highlights for the continuing business on a constant (and actual) exchange rate basis¹

- APE sales² up 9 per cent (5 per cent) to \$4,393 million with both agency and bancassurance channels delivering APE sales growth in the second half of 2022
- New business profit³ down (11) per cent ((14) per cent) to \$2,184 million with the impact of higher volumes being offset by higher interest rates and business mix effects
- Adjusted operating profit⁴ up 8 per cent (4 per cent) to \$3,375 million
- EEV operating profit⁵ up 15 per cent (12 per cent) to \$3,952 million. EEV shareholders equity is \$42.2 billion, equivalent to 1,534 cents per share
- GWS shareholder capital surplus over GPCR of \$15.6 billion⁶, equivalent to a cover ratio of 307 per cent⁶ (2021: 320 per cent⁷)
- Operating free surplus generated⁸ from life and asset management business up 9 per cent (6 per cent) to \$2,193 million
- Second interim dividend of 13.04 cents per share, 18.78 cents per share for the full year, up 9 per cent

“2022 was the first full year for the Group as an Asia and Africa focused business. We have delivered a resilient performance against a backdrop of Covid-19-related disruption and broader macroeconomic volatility. The results reflect the advantage of our diversified business model across the Asia region, highlighted by a balanced contribution to APE sales and new business profit from Hong Kong, the Chinese Mainland and Taiwan and from South-east Asia, including Singapore, Indonesia and Malaysia.

“The removal of the bulk of Covid-19-related restrictions across the region and the progressive opening up of the Chinese Mainland economy has meant that 2023 has started well with encouraging progress in year-on-year sales, with Group-wide APE sales for the two months ended February 2023 up 15 per cent⁹ over the prior year. In Hong Kong we have seen a gradual increase in cross-border traffic from the Chinese Mainland as travel restrictions are eased. Demand for savings products across the Hong Kong business is driving the increase in APE sales in the first two months of 2023.

“I’m honoured to have joined Prudential at such an exciting time with a tremendous opportunity for long term growth ahead of us. As we celebrate our 175th anniversary and 100 years of operations in Asia, the brand is as strong as ever, with leading market positions in many of our key markets. Our progress over recent years is a testament to our people, reflecting their talent and their commitment to serving our customers.”

Anil Wadhvani

Chief Executive Officer

Summary financials	Full year 2022 \$m	Full year 2021 \$m	Change on AER basis ¹	Change on CER basis ¹
New business profit ³	2,184	2,526	(14)%	(11)%
Operating free surplus generated ⁸	2,193	2,071	6%	9%
Adjusted operating profit ⁴	3,375	3,233	4%	8%
IFRS profit after tax ¹⁰	1,007	2,214	(55)%	(53)%
	31 Dec 2022		31 Dec 2021	
	Total	Per share	Total	Per share
EEV shareholders' equity	\$42.2bn	1,534¢	\$47.4bn	1,725¢
IFRS shareholders' equity	\$17.0bn	617¢	\$17.1bn	622¢

IFRS 17 Update

Effective 1 January 2023, the new insurance accounting standard, IFRS 17, will replace IFRS 4. This change will impact the timing of profit recognition and initial shareholders' equity, but will not affect the Group's regulatory capital generation or management, operating free surplus generation, business strategy, EEV basis results or dividend policy.

In summary, we expect an increase in the opening shareholder equity on 1 January 2022 of between \$1.8 billion and \$2.7 billion, reflecting the positive cumulative impact of net timing differences. The adjusted IFRS shareholders' equity¹¹ is also expected to be more closely aligned with the Group's audited EEV shareholders' equity.

Looking ahead, the Group estimates a decrease in the adjusted IFRS 17 operating profit for 2022 of between \$650 million and \$850 million compared with IFRS 4. This is largely due to timing differences that led to the increase in shareholders' equity and the removal of one off gains recognised in IFRS 4 that will be smoothed into profit in IFRS 17. More details on the impact of IFRS 17 adoption will be provided in June 2023.

Notes

- 1 Further information on actual and constant exchange rate bases is set out in note A1 of the IFRS financial statement. All results are presented in US dollars.
- 2 APE sales is a measure of new business activity that comprises the aggregate of annualised regular premiums and one-tenth of single premiums on new business written during the year for all insurance products, including premiums for contracts designated as investment contracts under IFRS 4. It is not representative of premium income recorded in the IFRS financial statements. See note II of the Additional unaudited financial information for further explanation.
- 3 New business profit, on a post-tax basis, on business sold in the period, calculated in accordance with EEV Principles. See the basis of preparation to the EEV basis results for further explanation.
- 4 'Adjusted operating profit' refers to adjusted IFRS operating profit based on longer-term investment returns from continuing operations and is stated after excluding the effect of short-term fluctuations in investment returns against long-term assumptions and other corporate transactions. This alternative performance measure is reconciled to IFRS profit for the period of \$1,007 million (2021: \$2,214 million) in note B1.1 of the IFRS financial results.
- 5 EEV operating profit is based on longer-term investment returns and is stated after excluding the effect of short-term fluctuations in investment returns against long-term assumptions and other corporate transactions, and excludes the effect of changes in economic assumptions and the mark-to-market value movement on core borrowings.
- 6 Estimated GWS capital position reflects eligible group capital resources in excess of the group prescribed capital requirements (GPCR) attributable to the shareholder business, before allowing for the 2022 second cash interim dividend and the redemption of \$0.4 billion of senior debt in January 2023. Further detail on the estimated GWS capital position, including the basis of preparation, is included in note I(i) of the additional unaudited financial information.
- 7 31 December 2021 comparative amounts include the effect of the adoption of HK RBC, C-ROSS Phase II and the redemption of \$1,725 million of subordinated debt completed in January 2022.
- 8 Operating free surplus generated from insurance and asset management operations before restructuring costs. Definition and further information is set out in 'Movement in Group free surplus' of the EEV basis results.
- 9 On a constant exchange rate basis.
- 10 From continuing operations. Comparative figures exclude the results of the Group's discontinued US operations (Jackson).
- 11 Defined as IFRS 17 shareholders' equity plus tax adjusted contractual service margin and risk adjustment.

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We expect to announce our Full Year 2022 Results to the Hong Kong Stock Exchange and to the UK financial Media at **12.00pm HKT – 4.00am UKT – 12.00am ET on Wednesday 15 March 2023**.

The announcement will be released on the London Stock Exchange at **3.00pm HKT – 7.00am UKT – 3.00am EST on Wednesday 15 March 2023**.

A pre-recorded presentation for analysts and investors will be available on-demand from 12pm HKT – 4.00am UKT – 12.00am ET on Wednesday, 15 March 2023 using the following link: <https://www.investis-live.com/prudential/63edfe6533aa1a12009e4fda/vdfwae>. A copy of the script used in the recorded video will also be available from 12pm HKT – 4.00am UKT – 12.00am ET on Wednesday, 15 March 2023 on Prudential plc's website.

A Q&A event for analysts and investors will be held at 5.00pm HKT – 9.00am UKT – 5.00am ET on Wednesday, 15 March 2023. We offer the option to join us in person or virtually.

Registration to join the Q&A event in person, in the Four Seasons Hong Kong, 8 Finance Street, Central, Hong Kong

To register to attend the event in person, please respond to this message.

Registration to view the Q&A event online

To register to watch the event and submit questions online, please do so via the following link: <https://www.investis-live.com/prudential/63ee55c8aaec340f00b5312a/udesc>. The webcast will be available to watch afterwards using the same link.

Dial-in details

A dial-in facility will be available to listen to the event and ask questions: please allow 15 minutes ahead of the start time to join the call (lines open half an hour before the call is due to start, i.e. from 4.30pm HKT – 8.30am UKT – 4.30am ET).

Dial-in: +44 (0) 20 3936 2999 (UK and international) / 0800 640 6441 (Freephone UK), Participant access code: **817924**. Once participants have entered this code their name and company details will be taken.

Transcript

Following the call a transcript will be published on the results centre page of Prudential's website on Mon, 20 March 2023.

Playback facility

Please use the following for a playback facility: +44 (0) 20 3936 3001 (UK and international), replay code **325964**. This will be available from approximately 10.00pm HKT – 2.00pm UKT – 10.00am ET on Wednesday, 15 March until 7.59am HKT – 11.59pm UKT – 7.59am ET on Saturday, 25 March 2023.

About Prudential plc

Prudential plc provides life and health insurance and asset management in 23 markets across Asia and Africa (at 31 December 2022). The business helps people get the most out of life, by making healthcare affordable and accessible and by promoting financial inclusion. Prudential protects people's wealth, helps them grow their assets, and empowers them to save for their goals. The business has dual primary listings on the Stock Exchange of Hong Kong (2378) and the London Stock Exchange (PRU). It also has a secondary listing on the Singapore Stock Exchange (K6S) and a listing on the New York Stock Exchange (PUK) in the form of American Depositary Receipts. It is a constituent of the Hang Seng Composite Index and is also included for trading in the Shenzhen-Hong Kong Stock Connect programme and Shanghai-Hong Kong Stock Connect programme.

Prudential is not affiliated in any manner with Prudential Financial, Inc. a company whose principal place of business is in the United States of America, nor with The Prudential Assurance Company Limited, a subsidiary of M&G plc, a company incorporated in the United Kingdom. <https://www.prudentialplc.com/>

Strategic and operating review

Following the completion of the Group's restructuring in 2021, our operations are fully dedicated to the life insurance and asset management opportunities in Asia and Africa. Our headquarters and management of the Group are now based in Hong Kong.

Our strategy is aligned with the long-term structural opportunities in Asia and Africa. Across Asia, the middle class is growing and is forecast to increase by 1.5 billion¹ by 2030. Prosperity is also rising across the region². This, combined with a low level of insurance penetration³ and a high level of out-of-pocket health and protection spending⁴ is driving an estimated \$1.8 trillion health protection gap⁵. In Africa, the population is expected to double to more than two billion⁶ people by 2050. These long-term trends underpin increasing demand for savings and protection and create significant opportunities for growth and value creation.

We have set out that our purpose is to help people get the most out of life and we put our customers at the heart of everything we do. We strive to meet the needs of our customers and continue to support the development of the capital markets in which we operate. We believe that it is important to the long-term success of our Group that we play a wider role in the societies in which we operate. In Asia and Africa, we seek to promote financial inclusion and a just and inclusive transition to a low-carbon economy. We will use our investments in both corporate and government sectors to promote long-term sustainable development that is equitable for our markets in the context of their historic carbon emissions. We also aim to fulfil our purpose for our employees, one of our greatest assets. As an employer, we have promised to make Prudential a place where our people can connect, grow and succeed.

To further our purpose, we continue to focus on developing our range of products and investing in our distribution channels as well as enhancing and embedding our digital capabilities. In this way, we expand our capacity to help protect our customers from threats to their health and wellbeing, as well as support them to achieve their savings goals. We also remain focused on investing in our people and systems to ensure we have the resources to deliver on our long-term growth strategy and to enhance our operating model to keep pace with our opportunities.

We have strong franchises and operational expertise in both the more developed markets and developing markets in Asia and Africa. We continue to build on our success in the Chinese Mainland where we see substantial opportunity to deepen our presence across a nationwide footprint. With the newly set up Macau branch of the Hong Kong business, we are strengthening our operations to capture the opportunities in the Greater Bay Area and to fully prepare ourselves for the increase in opportunities following the reopening of the border between Hong Kong and the Chinese Mainland. We also see large growth opportunities in South-east Asia, particularly in Indonesia and Thailand, and also in India. Our focus on selected markets in East and West Africa has provided us with exposure to a growing and fast-changing continent since we re-entered Africa in 2014.

We will allocate capital to those markets that we consider to have attractive size and demographic characteristics, and where we believe we have the ability to build and retain competitive advantage. Through leveraging our scale and expertise in those markets we believe we can achieve attractive returns. We have significant investment appetite and capacity to support organic growth through funding the writing of new business and through adding to our existing capabilities, including distribution. We also remain ready to consider strategic inorganic opportunities.

We seek geographic diversification of our Asia operations among Greater China⁷, our businesses in South-east Asia⁸ and India.

The first part of 2022 saw Covid-19-related disruption in many of our markets as the Omicron variant increased infection levels and associated social restrictions. Subsequently, most markets have returned to more stable operating conditions, albeit the border between the Chinese Mainland and Hong Kong remained closed throughout 2022. Against this backdrop, APE sales⁹ increased 9 per cent¹⁰ to \$4,393 million on a constant exchange rate basis reflecting growth in the second half of 2022 from both agency and bancassurance channels. New business profit¹¹ was down (11) per cent¹⁰ with the impact of higher APE sales offset by increased interest rates, most significantly in Hong Kong, and business mix effects. Outside of Hong Kong, new business profit grew by 5 per cent¹⁰ to \$1.8 billion. Additional commentary on the performance by segment is included in the Operational performance by market section below.

At a Group level, overall adjusted IFRS operating profit based on longer-term investment returns (adjusted operating profit¹²) for 2022 was \$3,375 million, 8 per cent¹⁰ higher than 2021, reflecting a 6 per cent¹⁰ increase from insurance and asset management business and a decline in central expenses¹³ of 26 per cent¹⁰, reflecting lower interest costs. IFRS profit after tax was \$1,007 million in 2022 (2021: \$2,143 million on a CER basis, \$2,214 million on an AER basis), reflecting short-term volatility from the impact of higher interest rates and lower equity markets on the valuation of investments and insurance liabilities, offset in part by the benefit from refinements to the reserving basis following adoption of the Hong Kong Risk-Based Capital regime (HK RBC). The Group's financial performance for the year is further discussed in the Financial Review later in this strategic report.

Customers

Customers are at the heart of everything we do. Our customer-centric strategy has three key pillars:

- 'WE Listen to Understand' the needs of our customers across different segments and build lifelong relationships when we onboard them. For example, our customer segmentation has identified a clear opportunity in further expanding our offering in the family segment leading to the launch of the innovative 'WE DO Family' proposition in 2022. Through the application of a data-driven approach, this proposition helps us identify the needs of our customers based on their life events and individual circumstances, helping us to tailor our offerings and build lifelong relationships. More than 30 per cent of our new customers are from the affluent and advanced affluent segments and over 50 per cent of policies issued are health and protection plans to cover for critical illness, to provide medical reimbursement to cover hospital bills and to give protection against loss of income from acute illness or permanent disability. 43 per cent of our new business profit was contributed by health and protection products. These products and solutions are offered through our multi-channel and integrated distribution and are key to driving long-term business growth.

- 'WE Care' for our customers to deliver value across all the engagements they have with us. At Prudential, we have well-established core expertise in utilising data and insights to improve customer interactions and make operational improvements to provide a differentiated and personalised experience to our customers. At the point of purchasing, smart underwriting using reflexive methods (an approach to inquiries that generates follow up questions based on the initial answer) enables instant underwriting decisions with confirmation of terms. In 2022, 79 per cent of new policies were auto-underwritten and 41 per cent of policies were issued with no human intervention. At the point of claims, 64 per cent of claims are submitted electronically and 31 per cent of all claims are auto-adjudicated for instantaneous approval. These actions supported 46 per cent¹⁴ of our APE sales being generated by our customers making a repeat purchase in 2022.
- 'WE Build' customer advocacy by listening to the voice of customers to understand and address their feedback. We have adopted a systematic approach to understanding customer feedback and then applying the insights gained to continually improve our offerings with the aim of delivering best-in-class customer experiences through each touchpoint and interaction. Customer retention remains high at 89 per cent¹⁴.

We seek to expand and innovate the coverage of our health and financial security products in an inclusive manner. This entails delivering solutions that recognise the evolution and needs of non-nuclear families, women, religious minorities, small and medium-sized enterprises, and lower-income groups. During 2022, we launched strategic propositions that celebrate 'families of every shape and size'. Across 11 markets, we rolled out a range of new and extended products that are 'Made For Every Family' with progressive term definitions (such as 'Beneficiary') to offer more tailored protection for extended family members.

Our total life customer base increased to 18.3 million¹⁵ (2021: 17.7 million¹⁵). New policies¹⁶ included 2.4 million¹⁷ health and protection cases, an increase of 9 per cent when compared with 2021, reflecting our customers' increased focus on this area in light of the pandemic. While these policies were generally smaller in size than in previous years¹⁷, we believe that the conversion of these customer interactions into sales by our diverse distribution channels is evidence of the power and quality of the Group's franchise and brand.

Our strategy is to be a customer-centric organisation, driven by customer needs. Customers are active in conducting their own research, for example through search engines and social media; however, when it comes to purchasing decisions on life insurance, given the complexity and emotions, their preferred route is to seek advice. Our multi-channel and integrated distribution strategy enables us to adapt flexibly to changing local market conditions in order to deliver products and services to targeted consumer segments and support our growth ambitions. This distribution network encompasses agency and bancassurance partnerships with a digital platform. Historically, agency contributed around 80 per cent of our overall new business profit in 2019. Asian and African insurance market distribution dynamics have been significantly affected by Covid-19-related restrictions. Over the last three years, our bancassurance sales have been relatively resilient and agency sales have been limited by mobility. As a result, the proportion of new business profit through agency reduced to 55 per cent with the majority of the reduction due to the restriction of the border between the Chinese Mainland and Hong Kong.

Agency

Agency continues to be an integral part of Prudential's brand and customer service platform. Across our markets, we have launched and connected a series of agency growth programmes to build capabilities and expand capacity for our agency platform. Prudential's Futuready Agency programmes aim to give our agency force a defensible competitive advantage by leveraging technology, behavioural science, and analytics to improve their skill sets, capabilities, and external positioning for long-term sustainable growth.

Our Futuready Agency programmes have four areas of emphasis:

- Attracting talent from target segments. PruVenture is Prudential's signature recruitment programme to attract talent and build a purpose-driven agency force. This has been deployed in seven core agency markets¹⁸ and onboarded over 9,800 associates over three years with productivity¹⁹ four times higher than standard new recruits. Our profiling assessment, PruDNA, selects individuals with high propensity to succeed. Thirty thousand successful agents went through PruDNA assessment in 2022, prior to joining Prudential.
- Leading and coaching leaders. PruVerge is Prudential's signature learning programme for the next generation of leaders to help them attract, recruit, coach and build high-performing teams. This has enrolled over 6,000 Verge leaders over two years, where they learn the science of coaching and development utilising a data-driven decision model. We saw an increase in agent recruitment per leader of 50 per cent for the Verge leaders while overall recruitment was up 9 per cent and agent productivity measured by cases per agent increased 6 per cent in the year.
- Building a premium career path for purpose-driven agents and offering robust professional development. We had over 7,000 agents with production levels that qualified for the Million Dollar Round Table (MDRT) contributing to 42 per cent²⁰ of APE sales in the relevant markets in 2022.
- Nurturing prospects by reimagining every aspect of prospecting, engaging, and advising to fit the digital business environment. Agents using PRULeads, our activity and leads management engine, were 30 per cent more productive¹⁹ with 32 per cent of agency sales generated using PRULeads²¹ (2021: circa 30 per cent) from 7.3 million leads²² (2021: 10.2 million) channelled via PRULeads.

Agency generated \$1.2 billion of new business profit (2021: \$1.6 billion¹⁰) at a margin of 70 per cent (2021: 89 per cent) with sales adversely affected by Covid-19-related restrictions in the first half of 2022. Sales through our agency business represent 61 per cent of our total health and protection APE sales. As the impact of Covid-19 subsides and agency activity resumes, we expect the agency contribution to new business profit to increase while maintaining the diversified distribution mix in line with our strategy.

Bancassurance

Bancassurance plays a key role in our diversified multi-channel platform. We operate the largest independent bancassurance franchise in Asia with access to over 190 bancassurance partners of which 10 are strategic partners. We continue to invest and integrate our insurance solutions into the bank partners' platforms and ecosystems to enable a seamless customer journey, supporting online to offline, virtual face-to-face and self-directed sales. We also leverage our expertise in selling through bank partners to deepen our customer relationships with an emphasis on health and protection solutions.

Bancassurance was our largest channel in 2022, generating \$2,225 million in APE sales. Our strategic partnerships, both regionally and locally, contributes 74 per cent of our overall bancassurance APE sales in 2022.

Our continual focus on segment specific propositions and solutions to address comprehensive customer needs resulted in new business profit through the bancassurance channel of \$879 million in 2022, representing an increase of 15 per cent¹⁰ from 2021, with seven Asian markets and Africa showing double-digit growth¹⁰. New health and protection policies sold through the bancassurance channel increased 39 per cent in the year.

Digital

Prudential's digital platform, Pulse, continues to support and enable our agents, customers and distribution partners across Asia and Africa in 19 of our majority owned markets of operation. We are constantly evolving the Pulse proposition as market conditions and the distribution landscape changes. The agility and flexibility of the platform allows us to provide products and services that meet the changing needs of multiple customer segments locally, while also providing up-to-date customer insights and leads to our distribution network. Pulse also supports a wide variety of modules to assist our agency force such as an integrated training and recruitment solution, 'real-time' management information tools and AI-powered analytics. From a technology standpoint, the Pulse platform utilises a one platform approach, allowing Prudential to consolidate and reduce IT investment over the long term as well as accelerate application development and deployment across our many markets. We remain committed to the strategic pillars which have driven our digital transformation and underpin our digital strategy. These are outlined below:

- Accelerating our digitally-enabled model of distribution via PRUForce;
- Improving servicing of existing and new customers via PRUServices;
- Strengthening our direct digital insurance suite of product and services; and
- Nurturing new business verticals and partnerships to drive future customer acquisition opportunities.

PRUForce, our agency tool on the Pulse platform, has allowed our agents to be more efficient, reaching and managing multiple customers at a time, whilst still maintaining a personalised approach. We continue to improve and refine this approach, with PRUForce central to the evolution of our agency network. PRUForce is live in six markets and offers our agents the competitive advantage by allowing them to stay connected with customers, building trust and providing personalised advice.

Accelerating the digital enablement of our distribution network remains critical for Prudential. We provide a full set of digital capabilities enabling agents to interact with customers via a multi-channel approach. The use of data and analytics helps accelerate our aspiration to support and increase sales productivity from those within our organisation, to those of our distribution partners. From a data security perspective, we have developed a common bancassurance gateway which can manage all transactions securely between any bank and Prudential's businesses, ensuring data security and privacy is always top of mind.

PRUServices is our digital customer servicing platform, allowing customers and agents to access their policy claims, payments, and benefits. Customers and agents can manage policies, from tracking the status of a policy proposal to reinstating a lapsed policy, via self-service features on the platform. PRUServices is live in nine markets. We aim to deliver a seamless digital experience for customers through an effective end-to-end journey. We believe this will strengthen customer affinity toward Prudential, reduce attrition of the in-force policy values and support the value represented by our installed customer base.

Furthermore, the ability to embed insurance products in our ecosystem and in core offerings from our partners is critical. To offer these products dynamically and seamlessly to the broadest possible market is only achievable via a digital platform. We have strengthened our direct product suite, including the launch of endowment products in several markets both via Pulse and through partners' mobile apps. This has enabled us to capture a larger pool of insurance customers from a wider range of socio-economic segments. Our life insurance joint venture in the Chinese Mainland and our associate in India maintain their own high-quality offerings via digital platforms with further details provided in the relevant sections that follow.

Finally, we have expanded our collaboration with new partners. For example, in October 2022, we entered a strategic partnership with Google Cloud to make healthcare and financial security more accessible across Asia and Africa. This strategic partnership supports our broader digital strategy to leverage AI and advanced analytics to transform the customer and agent experience and lower barriers to accessing financial services.

Asset and wealth management

Eastspring Investments ('Eastspring') is the pan-Asia asset management arm of Prudential with a presence in 11 Asian markets²³ as well as distribution offices in North America and Europe. Eastspring is a top-10 asset manager in six of these markets²⁴ managing or advising on \$221.4 billion in assets²⁵. Eastspring is well placed to address the saving and investment needs of customers across the region through a team of 300 investment professionals with local market expertise. Eastspring also benefits from reliable and stable fund inflows from the Group's insurance businesses which, together with its broad regional footprint, it can leverage to meet the long-term opportunity to grow mutual fund penetration from the market's current low base. Eastspring is also playing an important role as an active asset manager and is engaging with investee companies and governments in supporting our commitment to carbon reduction in our insurance company asset portfolio²⁶, allowing us to deliver profitable growth alongside a positive social impact.

During the year, Eastspring's average funds under management or advice decreased by (5) per cent¹⁰ to \$229.4 billion (2021: \$240.9 billion¹⁰), reflecting adverse market movements during the year, partially offset by net inflows, including from the Group's insurance business.

As a Group, we see opportunities to deepen our share of the wealth market by providing holistic wealth solutions to our high-net-worth and affluent customers. Our large and diverse customer base, well-positioned agency networks, strong intermediary relationships and leading brand name position us well to better serve this segment and deepen our relationship with our existing customers. Fund solutions occupy a central role in the product proposition, and we are focused on offering customer choice and access to top fund managers and innovative portfolio options. Our aim is to distinguish ourselves in this market through our service to customers and additional value-added services, such as consultation with independent panels providing legal and estate planning advice.

People

The Group employs over 14,000 members of staff²⁷. As an employer, we have made a promise to make Prudential a place where our people can Connect, Grow and Succeed. A significant part of that pledge to employees is preparing them for the future of work, so that they can participate in and contribute confidently to our business transformation. We believe in creating a workforce and a workplace that is innovative, inclusive, and customer-centric. During 2022, we focused on equipping our employees with these future-ready skills through a series of webinars and developing our innovation and design thinking capabilities within the organisation.

Our goal is to empower our people and deepen belonging at Prudential by respecting and appreciating differences. We maintain a culture where diversity is celebrated, and inclusion assured for our people, customers and partners. Building on the launch of PRUCommunities in 2021, our employee-led networks continued to enhance connections and are key to deepening belonging at Prudential. In 2022, we saw the global launch of various communities including PRU Women Empowered, PRU Young Professionals, Women in Tech, Mental Health First Aiders and the intersectional We DO Wellness, joining the well-established PRUPride. We have been included in the Bloomberg Gender Equality Index 2023, being listed on the index for the third successive year.

Leadership developments

2022 saw a number of leadership changes to support the ongoing evolution of the Group. The internal promotions during the year of James Turner to Group Chief Financial Officer and Avnish Kalra to Group Chief Risk and Compliance Officer, demonstrate Prudential's bench-strength and ability to focus on operational delivery by leveraging continuity in executive leadership. In addition, the Group continues to benefit from broad based and experienced local leadership teams who are deeply rooted in their markets.

During 2022 Seck Wai-Kwong, CEO, Eastspring; Dennis Tan, CEO, Prudential Singapore; Lilian Ng, CEO, Insurance; and Solmaz Altin, Group Chief Strategy and Transformation Officer, were all promoted to the Group Executive Committee (GEC). Mr Tan, Ms Ng and Mr Altin were promoted to Managing Directors of the Strategic Business Groups, which consist of selected markets. Mr Seck remains responsible for the growth of Eastspring's business and the delivery of its investment performance. Prudential's leadership team was further enhanced with the appointment of Lawrence Lam as the new CEO of the Hong Kong insurance business and Bundit Jiamanukoonkit (Kenny) as the new CEO of the Thailand insurance business.

Outlook

We continue to believe that the Group's multi-channel, digitally enabled distribution model positions us well to capture the opportunities open to us, and this competitive advantage, alongside our distinctive geographical footprint and customer-centric product range enables us to deliver a resilient performance.

There are signs that Covid-19-related impacts in many of our markets have stabilised, albeit operating conditions may continue to be challenging given the volatile macroeconomic environment and increasing risks of inflation. We enter 2023 with a resilient balance sheet and strong capital position, which we believe will enable us to manage these uncertainties and capture the resulting opportunities that arise.

We are encouraged by the year-on-year sales growth we have seen in the first two months of 2023. Our actions to maintain and build agent capacity and our continued innovation to broaden our product proposition mean we stand ready to serve our customers across all our markets. In particular, we are well positioned in Hong Kong and the Chinese Mainland to take advantage of the opportunities that we expect to arise as Covid-19-related restrictions are eased. We have seen a gradual increase in cross-border traffic with sales in the first two months of 2023 driven predominately by savings products.

We remain confident that we have the financial resilience, capital strength and capability to meet the growing protection and savings needs of our customers in Asia and Africa. By doing so, we believe we will deliver on our purpose to help people get the most out of life and also build value for our shareholders over the long term.

Operational performance by market

The following commentary provides an update on the operational capabilities and performance for each of the Group's segments. Discussion of the financial performance of the Group and its segments, including adjusted operating profit, is contained separately in the Financial review section of this Strategic report.

Chinese Mainland – CITIC Prudential Life (CPL)

	Actual exchange rate			Constant exchange rate	
	2022	2021	Change	2021	Change
APE sales (\$m)	884	776	14%	743	19%
New business profit (\$m)	387	352	10%	337	15%
New business margin (%)	44	45	(1)ppt	45	(1)ppt
Adjusted operating profit (\$m)*	368	343	7%	329	12%
IFRS profit after tax (\$m)	(144)	278	(152)%	266	(154)%

Amounts included in the table above represent the Group's 50 per cent share.

* Adjusted operating profit and Group IFRS profit after tax are discussed separately in the Financial review section of this Strategic report.

The Chinese Mainland continues to present significant growth opportunities for the Group, with a population of circa 1.4 billion²⁸, with low levels of insurance penetration and an estimated health and protection gap of \$805 billion⁵. Furthermore, a number of factors also support further growth both in health and protection as well as retirement planning products and services. These include regulatory proposals which are conducive to the long-term development of insurance markets as well as favourable demographics such as an ageing population, emerging middle class and rapid urbanisation. The recent announcement made by the China Banking and Insurance Regulatory Commission (CBIRC) to reform private pension schemes offers a significant opportunity for foreign insurers with strong financial capability and deep expertise in retirement planning products.

Prudential's life business in the Chinese Mainland, CPL, is a 50/50 joint venture with CITIC, a leading Chinese state-owned conglomerate. CPL benefits from the strong brands of both shareholders and a balanced distribution network with strength in agency and bancassurance and a well-diversified product range. CPL is a powerful franchise with an extensive footprint across 23 branches. CPL is focused on the affluent and upper affluent segments of the market where there is more stability of income and employment. CPL's diverse footprint supported its resilient performance with its Greater Bay Area cluster and Beijing new business profit growing at 72 per cent and 18 per cent respectively, offsetting some softness in Shanghai and surrounding cities which were most affected by Covid-19 surges during the first half of the year. Overall, CPL has more than doubled new business profit between 2017 and 2022, and it continues to outperform the market; the total Chinese Mainland industry-wide measure of gross written premium increased by 3 per cent in the year, while CPL, on the same basis, saw an increase of 16 per cent²⁹ in 2022. We believe that these operational outcomes are due to CPL seeking to put customers first and to enrich their health and wealth journeys. As Covid-19-related controls are progressively removed, CPL will continue to use its multi-distribution platform to serve the insurance needs of customers in terms of health, protection, long-term savings and retirement planning and expects to see a more balanced mix of sales from agency and bancassurance going forward.

New business performance during 2022

CPL is the largest single market contributor to the Group's total APE sales in 2022. Despite isolated lockdowns, CPL achieved APE sales growth of 19 per cent¹⁰ to \$884 million. This resilient growth has been underpinned by a diversified distribution strategy with a high-quality agency force and strong partnerships with banks delivering customer-centric protection and savings solutions.

The 19 per cent¹⁰ growth in APE sales was driven by stronger growth in the bancassurance channel (an increase of 32 per cent¹⁰), with the agency business being consolidated with the aim of driving quality throughout 2022 resulting in an overall decrease of (7) per cent¹⁰ in the year. In the first half of 2021 agency sales benefited from the effect of regulatory changes in the definition of critical illness coverage, which did not recur in the current year, lowering APE sales by (11) per cent¹⁰ in the first half of 2022. Agency APE sales in the second half of 2022 were 6 per cent¹⁰ higher than the equivalent period in the prior year.

APE sales growth led to a 15 per cent¹⁰ increase in overall new business profit for 2022 compared with the same period in 2021 and is now 44 per cent¹⁰ higher than that of the pre-pandemic year, 2019. Overall new business margins were marginally lower at 44 per cent (2021: 45 per cent). Agency margin was 65 per cent (2021: 71 per cent) and bancassurance margin was 43 per cent (2021: 39 per cent).

Delivering customer-led solutions

CPL seeks to address customers' financial security and wellbeing at different life stages, with built-in related services enriching the overall customer propositions. Solutions and services are combined in an ecosystem that provides an integrated experience, which seeks to identify and meet the customers' needs and so strengthens relationships with them for the long term.

During 2022 CPL continued to develop customised protection solutions. One specialised critical illness product that was specifically developed to meet the needs of customers in the Greater Bay Area of the Chinese Mainland contributed 21 per cent of CPL's relevant APE sales in that area. Beyond protection, CPL expanded its concierge service network to not only cover healthcare needs, including specialist consultation on treatment options, priority hospital access and mental health rehabilitation services, but also through development of our retirement and planning concierge service. This expansion includes extension of CPL's retirement village network to cover 17 institutions in seven cities.

CPL is enhancing the digital experience to its customers and distributors, including through its mobile first Xin Yi Tong app. CPL's 'Virtual Lounge' leverages technology to humanise the connection between the agent and the customer. The technology's ease of use by customers has been recognised by digital media. In fact, CPL's business continues to report one of the highest virtual sales³⁰ rates among the Group's businesses, at over 80 per cent.

Multi-channel distribution

CPL continues to focus on building a professional, high-quality agency force, with a strong understanding of our health, protection and retirement planning products. CPL has over 15,200 agents that serve customers across the country. While CPL's agency channel continues to go through a period of rationalisation along with the overall industry, CPL's agency force shows signs of stabilising in numbers as well as improvements in quality, with APE sales per active agent rising 9 per cent. CPL had over 1,000 agents with production levels that qualified for the Million Dollar Round Table (MDRT) in 2022. CPL is providing agents with advanced tools and techniques that help them engage with customers in order to provide solutions tailored to their needs and manage the conversion of leads to completed sales. Over time, as CPL's agency force continues to mature and build experience, we expect this to result in further enhancement in productivity, providing additional support to the growth trajectory in CPL.

Meanwhile, CPL also continues to build out its bancassurance distribution network, adding 11 partners. China Merchant Bank has become a significant partner in the Greater Bay Area and beyond. CPL has a network of 59 bancassurance partners with access to over 6,600 branches across the Chinese Mainland. Importantly, these relationships are strengthened and enhanced by local 3,200 insurance specialists catering to customers of the banks. This has resulted in higher levels of new business from the bank channel and supported an improvement in product mix. We believe that this highly effective service model supported the 45 per cent¹⁰ growth in new business profit in the bancassurance channel. Consistent with the ongoing regulatory developments in terms of capital management and customer conduct in the industry, we expect that refinements in the product features may, in the short-term, impact volumes but CPL continues to evolve its product set so that focus remains on meeting customer demands.

Hong Kong

	Actual exchange rate			Constant exchange rate	
	2022	2021	Change	2021	Change
APE sales (\$m)	522	550	(5)%	546	(4)%
New business profit (\$m)	384	736	(48)%	731	(47)%
New business margin (%)	74	134	(60)ppts	134	(60)ppts
Adjusted operating profit (\$m)*	1,036	975	6%	969	7%
IFRS profit after tax (\$m)	(211)	1,068	(120)%	1,060	(120)%

* Adjusted operating profit and Group IFRS profit after tax are discussed separately in the Financial review section of this Strategic report.

Prudential has a strong and reputable brand in Hong Kong and serves over 1.3 million customers. The fifth wave of the Covid-19 epidemic significantly decreased the amount of economic activity in Hong Kong, especially during the first half of the year with the impact compounded by restrictions on cross-border travel.

Demand for insurance products and solutions centres around retirement, legacy planning and health protection. Retirement savings needs are driven by a de minimis social security net, very limited employer contribution schemes and increasing longevity and rising dependency ratios. As a result, the average member of the Hong Kong population has no option but to voluntarily purchase savings and insurance products. In addition, an awareness of the need for health and protection products is generally high: an ageing population, relatively low benefit growth schemes offered by employers, the government's desire to manage down medical expenditure from the public purse and the rising cost of medical attention shape the market for these sorts of products. These needs and concerns from Hong Kong consumers are also relevant to Chinese Mainland visitors. 86 per cent of those surveyed said they are likely to purchase insurance in Hong Kong for legacy planning and health protection.

Chinese Mainland customers remain an important customer segment for the Hong Kong business and represented around 50 per cent of Hong Kong's policies sold in 2019, prior to the Covid-19 pandemic. We believe that Chinese Mainland customers continue to provide a significant long-term opportunity for the Hong Kong insurance industry, an opportunity Prudential Hong Kong remains focused upon, despite the fact that sales momentum has been severely impacted by the restriction on cross-border travel since late January 2020. The fundamental reasons for Chinese Mainland customers buying insurance products in Hong Kong remain the same, including diversification in terms of currency and asset class, access to professional financial advice with a broad product spectrum and access to high-quality medical care available in Hong Kong, amongst other factors. As a result, we expect to see the gradual return of this important source of new business as cross-border travel normalises for family and business visits with the resumption of quarantine free travelling. We are well prepared in all aspects, including distribution channels and customer servicing, platforms and systems, to serve Chinese Mainland customers.

We obtained a licence to open our Macau branch in January 2023, strengthening our operations to capture the opportunities in the Greater Bay Area. We are building distribution capabilities having established a strong and experienced leadership team in Macau. We expect that the Macau branch will take some time to establish itself before contributing meaningfully to the Hong Kong business.

New business performance during 2022

Overall APE sales declined by (4) per cent¹⁰ in the year to \$522 million, with sales through our agency channel adversely affected by the fifth wave of the Covid-19 pandemic in the first half of the year. However we saw a recovery in the second half with APE sales growing by 30 per cent¹⁰ compared with the first half, with growth across all channels, demonstrating our capacity to grow once the economy is fully reopened. In fact, based on the latest statistics available from the regulator for the full year, our sales outperformed the market, aided by the timely launch of our signature multi-currency product. Our market share²⁹ of APE sales increased by 2.0 percentage points to 7.4 per cent for 2022 compared with 2021. In the discrete fourth quarter of 2022, we

outperformed the market and increased our market share to 12.5 per cent⁴⁸, an increase of more than 5 percentage points compared with the discrete fourth quarter of 2021. This expanded market share was underpinned by the strong performance and maintenance of sales quality in both agency and bancassurance channels.

New business profit was \$384 million, down (47) per cent¹⁰, driven by lower sales volumes and a 60 percentage point fall in the new profit margin. The impact of the large rise in US interest rates on the risk discount rate applied under our EEV methodology had a significant impact on new business profitability. Excluding economic impacts, our new business profit was \$572 million (2021: \$731 million¹⁰). Channel and product mix also lowered margins with a lower proportion of agency sales and individual health and protection business in the period.

Delivering customer-led solutions

Our continued pivot to domestic customers has resulted in an overall increase of market share to 7.4 per cent³¹, based on the latest statistics available from the regulator for 2022, despite fierce competition in the domestic market. Our customer base is stable with a retention rate of over 97 per cent.

The business continues to refresh and upgrade its customer offerings with comprehensive protection and wealth accumulation propositions for affluent customers, for example through the launch of our new multi-currency saving product with a special feature for wealth distribution across generations.

We continue to enhance our health and protection product suite for our customers and potential customers as well as being a leading player and offering a full range of VHIS products to serve our domestic customers. We have fully embraced the government's 'Qualified Deferred Annuity Plan' (QDAP) for retirement and continue to offer a competitive product, making us one of the leading players in the market.

Our investment proposition provides access to international equities and bonds. Our with-profits product offering pools the investments of policyholders and allocates returns based on long-term investment performance. This is a distinct, capital-efficient structure benefiting from significant scale, enabling Prudential to provide differentiated products while generating attractive margins.

Multi-channel distribution

We operate a digitally-enabled multi-distribution platform and provide customers with a choice on how they prefer to be served.

Our agency force accounted for more than 58 per cent of our APE sales in the year. Despite a challenging operating backdrop in the first half of the year, agent activity rebounded in the second half, assisted by our drive to increase activity through customer-centric solutions, enhancing digital capabilities and training and development programmes. The second half of 2022 saw positive momentum with an increase in APE sales for agency channel by 57 per cent, compared with the first half of the year. The average agent case size was up 17 per cent year-on-year on the back of a broadened savings product suite. Agent recruitment has also rebounded 45 per cent in the second half of the year compared with the first half of the year.

On the bancassurance side, we have a long-standing strategic alliance with Standard Chartered Bank which has gone from strength to strength for more than 20 years. We were the leading major non-bank owned insurer in the bancassurance channel and increased our market share, measured by share of APE sales in the latest available public data for 2022³¹, driven by timely launch of new products and robust training and sales motivation.

Indonesia

	Actual exchange rate			Constant exchange rate	
	2022	2021	Change	2021	Change
APE sales (\$m)	247	252	(2)%	243	2%
New business profit (\$m)	125	125	-	120	4%
New business margin (%)	51	50	1ppt	49	2ppts
Adjusted operating profit (\$m)*	343	446	(23)%	429	(20)%
IFRS profit after tax (\$m)	243	362	(33)%	348	(30)%

* Adjusted operating profit and Group IFRS profit after tax are discussed separately in the Financial review section of this Strategic report.

Indonesia remains a critical market for Prudential. It is expected to contribute more than a third of ASEAN's economic growth³² between now and 2026, hence long-term growth prospects remain extremely favourable. We see strong growth prospects specifically in the Syariah segment given low insurance penetration rates, a substantial protection gap and a sizeable Muslim population³³.

We regained our leadership position in the Indonesian life market with 11 per cent market share²⁹ by weighted new business premium in 2022. We are also the market leader in the agency segment with 28 per cent of market share²⁹, and a market leader in the fast-growing Syariah segment, with 32 per cent market share²⁹.

In 2022, we became the first multi-national insurer to set up a dedicated Syariah life insurance entity in Indonesia as part of our strategy to meet the growing demands for Syariah solutions and support the growth of the Syariah community and economy. Our innovative product capabilities, coupled with a multi-channel distribution network, puts us in a strong position to grow our business and expand our customer reach.

Having completed a comprehensive refresh of our product offering, we recently initiated a transformation programme for the operations of the Indonesian business, looking to refresh the existing agency model, rejuvenate the sales capability, improve productivity per agent, and drive higher performance through operational efficiency. This aims to consolidate our position in what is a large and vastly under-insured market, recovering from a challenging economic backdrop and operating environment.

New business performance during 2022

Overall APE sales increased by 2 per cent¹⁰ in the year to \$247 million, despite Covid-19-related restrictions hampering sales activity in the first half of the year, limiting face-to-face interactions, and resulting in reduced footfall within bank branches. Mitigation efforts included leveraging our digital infrastructure to drive sales which, combined with restrictions easing in the second half of 2022, contributed to a 30 per cent¹⁰ increase in APE sales for the second half of 2022 compared with the first half of the year, and an overall increase in APE sales of 7 per cent in the second half of the year compared with the second half of 2021. Overall new business profit increased by 4 per cent¹⁰ compared with 2021 reflecting higher sales volumes and a small increase in profit margin to 51 per cent.

Delivering customer-led solutions

We continue to focus on maintaining our market leadership by broadening our propositions, delivering sound advice and solutions, providing a superior customer experience, enhancing operational effectiveness, and exploring new avenues for customer acquisition.

In terms of product propositions, we leveraged our dedicated Syariah life insurance entity in Indonesia by launching several new products in 2022. This included a first-in-market with yearly renewable term standalone Syariah critical illness product (PRUSolusi Kondisi Kritis Syariah) to meet consumer demand for simple, affordable cover. We also launched an enhanced version of the first-in-market Syariah education savings product, first launched in 2021 (PRUCerah Plus), which supports customers with their children's university education costs. These innovative products further strengthened our competitive position of being the only insurer to offer Syariah traditional insurance solutions across multiple channels.

The business also launched new medical products (PRUSolusi Sehat Plus Pro and PRUSolusi Sehat Plus Pro Syariah) to address the health protection needs of a family, midlife, and younger segments. We also continued to serve the insurance needs of the mass market segments by launching eight bite-sized digital protection offerings in Pulse and on the platforms of three digital partners, enabling us to acquire more than 91,000 new customers.

Multi-channel distribution

Driving the quality and productivity of our agency channel has remained one of our most important priorities. With 980 agents qualifying for the MDRT award in 2022, we are the leader in the agency channel. The shift to full time agents led to a reduction in the overall agency force by (7) per cent to 183,000. This contributed to an improvement in agency productivity¹⁹ of 8 per cent compared with 2021. Management actions include a drive to create a long-term career path for agents and a focus on urban areas where there is more scope for operational leverage. Resumption of full face-to-face agency activities followed a relaxation of Covid-19-related restrictions, enabling us to further penetrate the advice-based affluent segment. This contributed to a 26 per cent¹⁰ growth in average APE per new policy compared with 2021.

In the bancassurance channel, our long-standing strategic partnerships with SCB and UOB continued in 2022. These strategic partnerships have enabled us to provide solutions to a wide spectrum of customer segments, with SCB focusing on the premier face-to-face segment and UOB serving its customers through multiple distribution models. In addition to SCB and UOB, we have partnerships with other banks on distribution and direct marketing. We are seeking to enhance our bank partnerships particularly in the Syariah space.

Malaysia

	Actual exchange rate			Constant exchange rate	
	2022	2021	Change	2021	Change
APE sales (\$m)	359	461	(22)%	434	(17)%
New business profit (\$m)	159	232	(31)%	219	(27)%
New business margin (%)	44	50	(6)ppts	50	(6)ppts
Adjusted operating profit (\$m)*	364	350	4%	330	10%
IFRS profit after tax (\$m)	252	265	(5)%	250	1%

* Adjusted operating profit and Group IFRS profit after tax are discussed separately in the Financial review section of this Strategic report.

Significant growth prospects remain in the Malaysian insurance market, given the large protection gap and low level of retirement and healthcare provision in both the public and private sectors. Insurance penetration is still low, especially in the mass market which is a largely Muslim population³³. The population of the country is 34 million²⁸, of which over 60 per cent is Muslim³³. The Central Bank of Malaysia is actively supporting an increase in access to insurance products for this group through the sponsoring of Takaful market growth³⁴. It has a public target of doubling the number of Malaysians insured under Takaful policy certificates by 2026 through providing financial incentives for the purchasing of private insurance policies³⁴.

In Malaysia, we are the leading life insurer with 18.9 per cent market share²⁹, and we have one of the largest agency forces in the industry. We are the largest Takaful operator in the market with 22.3 per cent market share²⁹ and our Takaful new business sales are 1.4 times greater versus our nearest competitor in this market³⁵.

New business performance during 2022

APE sales declined (17) per cent¹⁰ due to both the combined impact of Covid-19-related restrictions in the first half of 2022 and the effect of product repricing in 2021. Excluding the effect of repricing in 2021, APE sales were marginally lower by 2 per cent¹⁰. However, as restrictions started to ease, sales improved with the second half of 2022 delivering APE sales that were 15 per cent¹⁰ higher than the first half of the year.

New business profit was down (27) per cent¹⁰ as compared with 2021, reflecting both lower sales volumes and profit margins, which were adversely impacted by the lower level of agency sales and higher interest rates. This overall decline in new business margins lessened in the second half of the year, as the launch of protection riders to strengthen our medical and critical illness offerings had a favourable impact on business mix in the second half of the year. Our business profile remains resilient with over 97 per cent of our products being regular premium in nature.

Delivering customer-led solutions

Our number of customers was 3.0 million in 2022 with 1.5 million from the conventional business and 1.5 million from the Takaful business, stable year-on-year. We continue to develop new and innovative propositions to address the evolving needs of our customers.

For example, we strengthened our health and protection offering by enhancing our core medical investment-linked proposition, which caters for both new and existing customers. We believe that its benefits offering is unique and supports customers' needs by providing medical protection that automatically increases in value every year, unlimited room and board and ICU stay, and longer pre and post-hospitalisation care. It also rewards customers for staying healthy. The benefits are designed to reinforce the importance of early intervention and consistent annual preventive care. We also provided a one-time offer to all our existing customers to opt-in for pandemic coverage if their existing policy excluded this benefit.

We continued to expand our customer base and drive financial inclusion in the market. Through our partnership with BSN, we have issued over 396,000 BSN Takaful Sakinah health and protection certificates. We have also entered a digital partnership with EPF i-Lindung to offer under-insured Malaysians further protection coverage that can be funded from their Provident Fund accounts. The i-Lindung initiative is aimed at promoting the importance of financial protection amongst the lower income community without the burden of upfront cash outlay.

Multi-channel distribution

Against a challenging operating backdrop, our agency force continued to grow with the workforce increasing 8 per cent over the period to over 24,300. We continued to attract high-quality agents, with a retention ratio that is above market levels. In 2022, we recruited over 7,400 new agents. We upgraded our channel capabilities with digital tools and leads for effective customer prospecting. We will continue to utilise digitalisation as a key enabler for customer and business excellence.

In the bancassurance segment, our product innovation drove APE sales growth of 17 per cent¹⁰. Growth prospects remain strong as we continue to build on our strength in the affluent segment and capture opportunities to penetrate the mass market segment across existing bank partners, including SCB, UOB and BSN. The merger of UOB and Citibank's operations in Malaysia will provide potential access to an incremental 500,000 customers.

Singapore

	Actual exchange rate			Constant exchange rate	
	2022	2021	Change	2021	Change
APE sales (\$m)	770	743	4%	724	6%
New business profit (\$m)	499	523	(5)%	510	(2)%
New business margin (%)	65	70	(5)ppts	70	(5)ppts
Adjusted operating profit (\$m)*	678	663	2%	646	5%
IFRS profit after tax (\$m)	406	394	3%	384	6%

* Adjusted operating profit and Group IFRS profit after tax are discussed separately in the Financial review section of this Strategic report.

As Singaporeans live longer, demand for healthcare will continue to increase - in fact, the overall health protection gap is estimated at \$23 billion⁵, being the measure of the shortfall in finances to fund health expenditure. With increasing prosperity, Singapore is set to have Asia's highest number of millionaires by 2030³⁶, demand for wealth management services is high, with life insurance a key part of the suite of products being used for legacy planning and asset diversification.

In Singapore, we are one of the market leaders in protection, savings and investment-linked plans²⁹. We have been serving the financial needs of Singapore residents for more than 90 years, delivering a suite of product offerings and professional advice through our network of more than 5,000 financial consultants and our bank partners.

In 2022, we continued to drive our segment-led customer strategy by further penetrating the high-net-worth segment. In the affluent segment, we intend to strengthen our leadership position with comprehensive health and retirement solutions. We leverage our Pulse app and market-leading Shield offerings to expand our presence in the mass segment. For the younger generation, we are reinvigorating our investment-linked propositions for both the affluent and mass market segments. Finally, we further penetrate the SME segment through our Business@Pulse platform for the employee benefit business.

New business performance during 2022

Overall APE sales increased by 6 per cent¹⁰ to \$770 million, despite the negative impact of Covid-19-related social movement restrictions on agency sales in the first half of the year. Reflecting these restrictions, agency APE sales declined by (11) per cent¹⁰ in the first half of the year compared with the first half of 2021. The easing of these restrictions in the second half contributed to agency APE sales growth of 15 per cent in the second half of the year, compared with the equivalent prior year period, resulting in an overall increase in agency APE sales of 3 per cent¹⁰ in the year. Demonstrating the benefit of our balanced channel and diversified product mix, APE sales in our bancassurance channel grew by 11 per cent¹⁰ in 2022.

New business profit declined by (2) per cent¹⁰, with the impact from higher sales volumes more than offset by lower profit margins, mainly as a result of adverse economics and also impacted by change in product mix.

Delivering customer-led solutions

We saw diversified growth across our wide product offerings in 2022 to meet the health and wealth needs of our customers in Singapore. APE sales to the high-net-worth segment grew 30 per cent¹⁰ driven by new channels and services, as well as our effort to deliver superior customer experience. Our enterprise benefit business also delivered good growth with APE sales increasing by 17 per cent¹⁰, covering over 3,000 small-to-medium enterprises and over 200,000 employees.

To meet the specific retirement and investment needs of our customers, we have launched PruVantage Wealth, an investment-linked product offering low fees, simplified charges and a wide range of professionally managed fund choices including dividend paying funds and hassle-free model portfolio funds. We are offering innovative plans that integrate both protection and wealth accumulation for younger customers with affordable premiums of 90 SGD per month for 200,000 SGD life and critical illness cover.

Our claims-based pricing model for the PruShield medical reimbursement product enables us to manage our health book sustainably and continue to offer best value for our customers without compromising their medical outcomes.

We continue to improve our customer experience, leveraging digital and technology in our day-to-day operations. Three out of four policies went through instant underwriting engines, which improve productivity and turnaround time. An AI TalkBot with localised dialect was rolled out in 2022 to address customer queries instantly. In addition, the PRUaccess platform is interfaced with SGFindex which enables customers to have a single consolidated view of financial investments within Singapore so that our customers can better plan their financial future. The quality of our customer service is reflected in the form of a high customer retention ratio of 96 per cent.

Multi-channel distribution

The quality and productivity of our agency force continues to improve significantly. The total agency force stood at over 5,000, stable when compared with 2021. Top-tier agents grew at pace as demonstrated by the more than 23 per cent increase in the number of MDRT qualifiers to over 1,200 in 2022. We are the first and only agency force in Singapore, where all agents are subject to the Institute of Banking and Finance (IBF) level 1 qualification. Regular premium APE sales in our agency channel remained strong, and productivity, as measured by APE sales per active agent, rose 2 per cent¹⁰, despite the industry headwinds.

In the bancassurance space, with two strategic partners, UOB and SCB, we are gaining access to more than 1.6 million³⁷ active mobile banking customers and 130,000 small and medium enterprises and commercial banking customers³⁷. We continue to work with the banks in serving their customers and focusing on distinct segments such as the affluent and high-net-worth. We have also offered digital wealth solutions on UOB mobile and SCB internet banking platforms. This enabled us to connect directly with customers online or get a lead for customers who prefer face-to-face engagements.

Growth markets and other

	Actual exchange rate			Constant exchange rate	
	2022	2021	Change	2021	Change
APE sales (\$m)	1,611	1,412	14%	1,323	22%
New business profit (\$m)	630	558	13%	526	20%
New business margin (%)	39	40	(1)ppt	40	(1)ppt
Adjusted operating profit (\$m)*	1,057	932	13%	880	20%
IFRS profit after tax (\$m)	881	434	103%	406	117%

* Adjusted operating profit and Group IFRS profit after tax are discussed separately in the Financial review section of this Strategic report.

The Group's growth markets and other segment incorporates its businesses in India, Thailand, Vietnam, the Philippines, Taiwan, Cambodia, Laos, Myanmar, and its businesses in Africa. The Group sees the opportunity for rapid growth through the rollout of its efficient and scalable business model, and multi-channel distribution networks, including its digital Pulse platform.

India represents a very large opportunity for the Group's further growth, having a population of 1.4 billion²⁸, low insurance penetration and expectation of fast rising GDP per capita. We are a Promoter under Indian Listing rules of ICICI Prudential Life Insurance Company, being one of the founding shareholders. We currently have one board seat and own 22 per cent of its voting rights. ICICI Prudential Life Insurance Company is amongst the top-three private life insurance companies²⁹ in India and is listed on the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) in India. It intends to grow its business by deepening penetration of under-served customer segments, enhancing its distribution footprint and tailoring solutions to the different customer needs across savings, protection, and retirement, including developing new propositions for the mass market. ICICI Prudential Life maintains its aspiration to double its 2019 new business profit by 2023 through its '4P' framework for Premium growth, Protection focus, Persistency improvement and Productivity enhancement.

Thailand is the second-largest economy in ASEAN with a population of over 70 million²⁸ and a well-developed financial services industry. Our strategy in Thailand is to focus on bancassurance and supported by alternative distributions including digital, agency, direct marketing and brokerage, together with retail asset management offering. We have completed the integration of our bancassurance capabilities with the expanded TMB Thanachart Bank (TTB), including the training of their staff in our products and propositions. We continue to focus on delivering the benefits from our bank partnerships with both TTB and UOB. As a result, we delivered higher-than-industry-average APE sales growth, both in the bancassurance channel and for the industry as a whole in 2022. We have double-digit APE sales growth for three consecutive years from 2020 to 2022, and now have an overall market share of 7 per cent²⁹, being sixth in the market²⁹. We are also offering relevant digital propositions served via the digital apps of our bank partners to bring new health and protection solutions to the underserved mass segment. In addition, we have been working closely with our bank partners to unlock SME opportunities through our Business@Pulse platform for the employee benefit business. Finally, as part of our integrated model for customers, we have been working in collaboration with our Thai retail fund

management business to design propositions in the health, wealth, and retirement space, particularly for the high-net-worth and affluent segment.

Vietnam has the third-largest population in ASEAN with a population size of just under 100 million²⁸, a median age of 32 years and a significant health and protection gap estimated at \$36 billion⁵. The market has undergone rapid urbanisation with less than 20 per cent³⁸ of the population living in urban areas in 1986, increasing to 37 per cent³⁸ at the end of 2021 and forecast to increase to 45 per cent by 2025³⁹. We are expanding our geographical footprint in the urban areas through digitally-enabled agency and bancassurance channels. We are second in the market with 15 per cent²⁹ market share, up 2 percentage points from 2021.

The Philippines provides us with an opportunity to serve customers, given the large protection gap and low level of insurance penetration across the country. We are the market leader with 17 per cent²⁹ market share, based on the latest available market data to 30 September 2022, by weighted new business premium. Our core strengths in the affluent and mass market segments together with our digital capability helped drive a 17 per cent growth in our customer base to 0.9 million customers.

Taiwan is the fifth largest life insurance market in the world⁴⁰, with a population of 24 million²⁸. Our business has an overall APE market share of 4.4 per cent²⁹, 1.5 percentage points higher than in 2021. Prudential is a leading insurance brand in the market amongst the foreign players²⁹.

Africa presents a significant opportunity, with its population expected to double⁶ by 2050. Since we entered Ghana in 2014, the business has delivered double-digit APE sales growth in every year of operation. We are in top-five positions in five of our eight countries in Africa, including the number one position in Uganda and Zambia²⁹. Our business provided health, wealth and protection solutions to 990,000 customers across eight countries. Prudential was a sponsor of the 2022 Africa Cup of Nations, the largest football tournament in Africa. The matches were viewed by over one billion individuals, improving Prudential's brand awareness throughout the continent.

New business performance during 2022

In India, APE sales grew 4 per cent¹⁰ driven by strong growth in the protection and annuity business. ICICI Prudential's focus areas of annuity and protection, which represent underserved needs of the country, performed well. Over the 9 month period to December 2022⁴⁷ annuity APE sales grew 56 per cent¹⁰ and protection APE sales growing 23 per cent¹⁰, compared with the equivalent period in 2021. This sales performance enabled ICICI Prudential to maintain its top three position in the private market with a market share of 6.3 per cent²⁹. Over the period, new business profit grew 20 per cent¹⁰ reflecting APE sales growth and a favourable product mix.

In Thailand, APE sales rose 18 per cent¹⁰ through the expansion of bancassurance sales in 2022 and the progressive easing of Covid-19-related restrictions. During the year, there was strong appetite for bundled protection products through the bancassurance channel, improving new business profit which was further boosted by the impact of higher interest rates.

In the Philippines, while the effects of Covid-19-related disruptions hampered sales in the first half of 2022, momentum in the second half was strong, as economic activity began to normalise. Overall APE sales were up 14 per cent¹⁰ to \$182 million. New business profit was restrained by the change in interest rates during the year, despite the strong growth in sales volumes.

Vietnam's economy showed its resilience during the Covid-19 pandemic, being one of the few countries in the world to record two consecutive years of growth. Our Vietnam business continued to outperform the market in 2022, delivering a strong APE growth of 26 per cent¹⁰ compared with 2021, stronger than the industry APE growth of 8 per cent²⁹, underpinned by double-digit growth rates in both bank and agency channels.

In Taiwan, APE sales grew 35 per cent¹⁰ during 2022 driven by strong growth in both bancassurance and brokerage channels, outperforming the market which reported a contraction of (11) per cent during 2022 compared with 2021. New business profit rose strongly driven by the increase in sales and favourable product mix changes.

In Africa, despite headwinds from inflation and Covid-19, APE sales grew by 19 per cent¹⁰ year-on-year, with a broad-based performance across all channels, new business profit margin comparable with the prior year.

Delivering customer-led solutions

In India, ICICI Prudential continues to offer products designed to match customers' need and life stage. A shift in customer preferences and continued investment in product development have culminated in award-winning product propositions across the protection, long-term savings and annuity segments. This has given ICICI Prudential a well-balanced product mix thereby insulating it from volatility. ICICI Prudential introduced a number of significant new products in the year, such as a regular premium annuity plan to provide flexibility to customers in building retirement savings pools over the long term. ICICI Prudential also launched a new long-term participating savings product that enables customers to receive tax-free guaranteed income or a lump sum maturity. This includes a savings wallet option to accumulate the income and withdraw the accumulated fund value at any point during the policy term.

ICICI Prudential continues to innovate by leveraging new-age digital technologies to better address customer requirements during the policy life cycle – from onboarding, to servicing, to claims processing. With an exponential rise in digital adoption, its technology initiatives have ensured that it is well positioned. ICICI Prudential will continue to deploy best-in-class technology solutions to increase efficiencies and empower customers. An example of the benefits of its updated technology infrastructure and capability is that over 91 per cent of service transactions are now done through self-help or the digital mode.

In Thailand, we continued to refresh our product suite to address the evolving needs of the Thai population's health and wealth aspirations. From a low base, we tripled our health reimbursement sales and our whole-of-life sales through extensive training for

the bank staff, as well as widening health and protection products to both individual and group customers. We also promoted protection through plans like Easy Care Plus, which offers simplified underwriting to our customers. As a result, our health and protection APE sales mix increased from 16 per cent in 2019 to 24 per cent in 2022. In addition, we relaunched our flagship 888 savings product, which is a long-term saving product that also offers protection, and other Legacy Builder products and introduced innovative Index Link Participating solutions. Our product initiatives have resulted in 17 per cent¹⁰ growth in total bancassurance APE sales including 19 per cent¹⁰ growth in protection sales through TTB. Our focus on customer needs was also reflected in our market-leading net promoter score position in the market²⁹ and our 11 per cent increase in the number of new customers⁴¹ acquired, bringing total customer numbers to 1.7 million.

In Vietnam, we continued to provide customer segment-led propositions by offering affordable protection solutions to the mass market segment alongside providing savings, education and health and protection plans to the middle-income segment, and serving the investment needs of affluent customers. To address the market's need for affordable protection solutions, we have launched System and Organ Function Insurance (SOFI), which provides simple to understand health coverage based on the severity of symptoms and organ function of customers. We also have launched PRU-Easy365 offering comprehensive protection benefits against accidental risk and three common critical illnesses for customers. More than 2,100 and 31,100 SOFI and PRU-Easy365 policies respectively have been sold since launch, increasing our penetration into the younger segment of the population.

In the Philippines, we continue to drive product innovation and financial inclusion with the launch of PRUHealth FamLove. This is a first-of-its-kind critical illness protection plan for different types of Filipino families and can cover up to four family members in one policy. The product's innovative design provides medical cover based on severity of illness, rather than specific diseases.

In Taiwan, we provide solutions for long-term savings and protection to our target market segments. We are focusing on addressing the diverse needs of the sandwich generation with unique end-to-end propositions. Through our H.E.A.R. campaign, we are innovating and expanding our solution offerings for health and protection products. We recognised the growing demand for eye-related treatments as people spend more time using electronic devices, particularly as working from home became more prevalent during the Covid-19 pandemic. In 2022, we launch the first-in-the-market eye care insurance to strengthen the coverage for a broad range of eye-related treatments from simple eye care to complicated eye surgery. The product was well received and the continued emphasis on health and protection led to a 94 per cent increase in sales of such products in 2022.

In Africa, we continue to pursue customer-led insurance initiatives, with the launch of 12 new products across the region in 2022. We have also introduced end-to-end digital products in three countries.

Multi-channel distribution

In India, ICICI Prudential Life has continued to drive its growth ambitions by enhancing its multi-channel distribution capability supported by a diversified product mix. In the agency channel, we recruited over 34,700 new agents during the year, bringing the total number of agents to over 204,000. Outside agency, we have over 850 partnerships including 34 banks. Distribution partners are enabled with digital tools to onboard and serve customers with ease. The onboarding journey is simplified by using collaboration platforms, pre-approved sum assured offers, pre-population of application forms from uploaded Know-Your-Customer documents, customised offers to customers, and tele and video verification triggers. We have built a state-of-the-art platform enabling ease of integration with ecosystems and partners' systems. Additionally, we support our partners to build customer onboarding journeys on their platform powered by micro services.

In Thailand, the relaxation of Covid-19-related restrictions during the second quarter of the year resulted in the reopening of many of the bank outlets of our main distribution partners, TTB and UOB. TTB is one of the largest banks in Thailand with around 600 branches, and UOB has around 150 branches. We continue to engage actively with our partners at TTB to improve productivity and customer experience, as well as to extend our reach to the wealth and enterprise benefit segments. The acquisition of Citibank's Thailand operations by UOB provides an opportunity to further grow our bancassurance presence and expand our customer base. Operational integration of the Citi outlets started in late 2022 and will continue over the next year. For Group EB, rapid realisation of strategy had made this business grow 49 per cent compared with 2021. Our digital channel also achieved a robust result where we attained second position⁴² in the digital market share, with APE sales tripling¹⁰ during 2022 compared with 2021.

In Vietnam, we continued to focus on quality recruitment and training in the agency channel and supporting our agents with access to comprehensive product propositions and digital tools such as PRUForce and PRULeads. As a result, we have grown our number of MDRT qualifiers by 60 per cent in 2022 to almost 2,000. The bancassurance channel continued to record strong growth of 26 per cent¹⁰, underpinned by our partnerships with seven banks with strong operations in urban areas, which combined have over 600 branches in Vietnam.

In the Philippines, our agency channel continued its strong growth with a 89 per cent growth in recruits. In addition to agency, we continued to grow our customer base and promote financial inclusion by offering bite-sized products on Pulse and by partnering with banks and other digital outlets. Our partners include CIMB, a digital bank with more than 6.5 million⁴³ customers, GCash, the top mobile wallet provider in the Philippines, and Shopee, the leading online shopping platform.

In Taiwan, our 35 per cent¹⁰ APE sales growth in 2022 was supported by strong bancassurance performance. Through strategic and non-strategic bancassurance partners and brokers, we continue to broaden and diversify our distribution network. Today, we reach customers through partnerships with more than 20 banks and top brokers in Taiwan, and we continue to digitalise our processes to provide seamless services to customers and distributors.

In Africa, Prudential has a 16,000-strong agency force and is the first African company to achieve the over 200 MDRT members milestone in 2022. In addition, Prudential Africa has access to over 1,000 bank branches, digital, telecommunication and intermediary partnerships. Our ongoing investment in digital innovation and robust systems to digitise processes will allow us to grow at scale and provide seamless experience to better service our customer needs.

Eastspring

	Actual exchange rate			Constant exchange rate	
	2022	2021	Change	2021	Change
Total funds under management or advice (\$bn)	221.4	258.5	(14)%	251.6	(12)%
Adjusted operating profit (\$m)	260	314	(17)%	299	(13)%
Fee margin based on operating income (bps)	29	30	(1)bp	30	(1)bp
Cost/income ratio (%)	55	54	1ppt	54	1ppt
IFRS profit after tax (\$m)*	234	284	(18)%	271	(14)%

* Group IFRS profit after tax is discussed separately in the Financial review section of this Strategic report.

Eastspring is the asset management arm of the Group. Its funds under management or advice (referred collectively as funds under management below) of \$221.4 billion includes \$30.1 billion that represents our 49 per cent share in funds managed by ICICI Prudential Asset Management Company (IPAMC) in India and \$9.0 billion that represents our 49 per cent share in funds managed by CITIC-Prudential Fund Management Company Limited (CPFMC) in China. Eastspring has \$130.2 billion of funds under management on behalf of the Prudential Group.

2022 was a challenging year for the asset management industry. Global bond and equity markets declined sharply, weighed down by concerns around the outlook for growth and fears of recession as inflation spiked and central banks ratcheted up interest rates. This was further compounded by the continuing conflict in eastern Europe and, in 2022, an uncertain economic outlook in the Chinese Mainland.

Eastspring's ambition is to be a leading provider of investment solutions to protect and grow clients' wealth. Its purpose 'Experts in Asia. Invested in Your Future' guides the business and reflects its commitment to help its stakeholders build a better and more sustainable future.

Eastspring sees three key enablers in driving its future success:

- Driving improved investment performance by leveraging an integrated investment platform regionally, and through a rigorous investment framework;
- Expanding its investment capabilities and product range to offer competitive solutions for institutional and retail clients globally; and
- Achieving greater operating efficiency through best-in-class infrastructure and systems.

Financial performance

Eastspring saw a (14) per cent⁴⁴ decline in its funds under management to \$221.4 billion in 2022, predominantly due to market depreciation and foreign exchange translation losses, which collectively totalled \$42.1 billion. During 2022, there was a small shift in overall asset mix from bond to equity funds with an asset mix as at 31 December 2022 being 47 per cent in bonds, 46 per cent equity, 1 per cent in alternatives and 6 per cent in money market funds. The firm's overall assets remain well diversified across both clients and asset classes.

The decline in funds under management was cushioned by stable and reliable inflows of \$7.8 billion from Prudential's life insurance businesses but offset by net outflows of \$(3.2) billion from third-party business⁴⁵. These net outflows were driven primarily by bond funds following interest rate hikes throughout the year, as well as redemption of equity funds managed on behalf of M&G plc.

Fee margins reduced by 1 basis point⁴⁴ as a result of mark-to-market losses of \$7.8 million on seed investments made to fund new products. This reflects the volatile and adverse market conditions of 2022. The firm's cost/income ratio declined by 1 percentage point⁴⁴. Excluding these realised and mark-to-market investment losses, Eastspring's cost/income ratio improved by 2 percentage points against 2021.

Investment performance

Despite the challenging market environment, Eastspring recorded solid performance results with 59 per cent of assets under management outperforming their benchmarks⁴⁶ over the past year (2021: 61 per cent) and 39 per cent of assets under management outperforming their benchmarks⁴⁶ over the past three years (2021: 42 per cent). The Singapore-based Value Equity teams posted substantial outperformance over the past year on a funds under management weighted basis and the Active Quantitative strategies also firmly supported aggregate returns. Although Fixed Income and Growth Equity strategies were under pressure over the year, broadly underperforming benchmarks, sentiment started to turn in the final quarter of 2022 following the unexpected easing of Covid-19-related restrictions in the Chinese Mainland, the Chinese government's support for China's stressed property market and signs that global inflation pressures were beginning to ease.

To compete in an increasingly dynamic environment and to bring its deep expertise of Asian markets to clients, Eastspring integrated the investment capabilities of its wholly-owned businesses onto a single platform. This enabled the firm to capitalise on its global execution capabilities and resources more efficiently, providing more cohesive and robust data and investment analysis.

Eastspring is proud to be recognised for its achievements, winning numerous industry awards in 2022. Notably, Eastspring Investments was named the Best Emerging Markets Equity Manager by the Citywire Asia Asset Management Awards. At a country level, Eastspring Singapore was named Top Investment House by The Asset Benchmark Research Awards, while Eastspring Vietnam was named Best Fund House in Vietnam by Asia Asset Management.

Client excellence

During a year when market headwinds resulted in challenging outcomes for both the asset management industry and its clients, Eastspring maintained its client-centric approach and frequently engaged internal and external clients to better understand their challenges and investment needs. In doing so, it could best meet client expectations and provide tailored solutions.

Eastspring continued to strengthen its relationship with the Prudential Group's life insurance and corporate asset owners, including launching customised strategies for local markets.

Across its institutional business, Eastspring continued winning mandates, and top-ups, from some of the largest pension and sovereign wealth funds. Notably, the firm has seen good success in its international markets of the Americas, Europe, and Taiwan and Malaysia's Islamic business.

Enhancing distribution capabilities

While deepening and broadening its relationships with distributors, Eastspring has also increased its efforts to improve its distribution capabilities by developing new digital investment and servicing platforms, particularly in Malaysia and Thailand. In Japan, Eastspring launched online-exclusive funds to capture flows from the younger generation. Eastspring also expanded its partnerships with online mutual funds and wealth management platforms, for example with a co-branded fund on iFast's Fundsupermart.

In July 2022, Eastspring further strengthened its franchise and footprint through the successful incorporation of Eastspring Thailand, merging TMBAM Eastspring and Thanachart Fund Eastspring. With this merger, Eastspring is now the sixth-largest fund management company in Thailand and is well positioned to offer compelling investment solutions to local investors and to grow its business in South-east Asia's second-largest economy.

Accelerating responsible investing

Eastspring's commitment to responsible investing is embedded across its business.

The firm is focused on driving sustainable solutions on three fronts. First, Eastspring strengthened its engagement on climate change and decarbonisation with investee companies, including with the top emitters contributing to 65 per cent of absolute carbon emissions in Prudential's asset book. Second, the firm enhanced its ESG data capabilities to support investment and engagement activities. Third, the firm harmonised all Responsible Investment-related policies across its markets into a single Eastspring Investments Group Responsible Investment Policy.

Eastspring provided strong support to the wider Group's successful efforts in meeting its sustainability milestones. At the same time, Eastspring expanded its range of sustainability-focused funds, for instance, launching a Japan Sustainable Value Fund. In Indonesia, the business launched the award-winning Reksa Dana Indeks ESG IDX Leaders Plus, the first mutual fund that utilises the Indonesian Stock Exchange's ESG Leaders Index.

Joint venture growth initiatives

IPAMC continued to enhance its digital strengths and broadened its product suite across equity and fixed income strategies. As a result, over 50 per cent of new customers were onboarded directly and through partnerships with fintech companies and neobanks, resulting in an existing customer base of circa eight million.

CPFMC has deep cooperative relationships with over 40 local research institutes and provides Qualified Foreign Institutional Investors (QFII) with professional investment advisory services. Since 2021, it has been building out its pension target funds, which attracted steady net subscriptions from retail investors.

Notes

- 1 Source: The Unprecedented Expansion of the Global Middle Class, Global Economy and Development program at the Brookings Institution, February 2017. Forecast growth of Asia Pacific middle class 2020 to 2030.
- 2 Source: IMF World Economic Outlook Database, April 2022, compound annual growth rates of GDP per capita, 2022-2026.
- 3 Source: Swiss Re Institute; Sigma No 3/2021: World insurance – life insurance penetration (premiums as a percentage of GDP in 2020).
- 4 Source: World Health Organisation: Global Health Observatory data (2019). South-east Asia, Out-of-pocket expenditure as percentage of current health expenditure (CHE).
- 5 Source: Swiss Re Institute: The health protection gap in Asia, October 2018.
- 6 Source: The Economist, Special report, 28 March 2020 edition.
- 7 Greater China comprises of our businesses in the Chinese Mainland, Hong Kong and Taiwan.
- 8 South-east Asia comprises of our businesses in Asia excluding the Chinese Mainland, Hong Kong, Taiwan and India.
- 9 APE sales is a measure of new business activity that comprises the aggregate of annualised regular premiums and one-tenth of single premiums on new business written during the year for all insurance products, including premiums for contracts designated as investment contracts under IFRS 4. It is not representative of premium income recorded in the IFRS financial results. See note II of the Additional unaudited financial information for further explanation.
- 10 On a constant exchange rate basis.
- 11 New business profit, on a post-tax basis, on business sold in the period, calculated in accordance with EEV Principles.
- 12 'Adjusted operating profit' refers to adjusted IFRS operating profit based on longer-term investment returns from continuing operations. This alternative performance measure is reconciled to IFRS profit for the period in note B1.1 of the IFRS financial results.
- 13 Excluding restructuring and IFRS 17 implementation costs.
- 14 Excluding India, Laos, Myanmar and Africa.
- 15 A life customer is defined as an individual or entity who holds one or more policies with a Prudential life insurance entity, including 100 per cent of customers of the Group's joint ventures and associate. Group business is considered to be a single customer for the purpose of this definition. The customer numbers for 2021 have been restated to ensure consistent and comparable application of this definition across all Group entities.
- 16 New policies are presented on a 100 per cent basis.
- 17 Excluding Africa.
- 18 Core markets consist of the Chinese Mainland, Hong Kong, Indonesia, Singapore, Malaysia, Vietnam and the Philippines.
- 19 Productivity measured by APE sales per average active agent.
- 20 Percentage of APE sales in Asia markets, including CPL, India and Malaysia Takaful on a 100 per cent basis.

21 APE sales completed by agents on leads recorded and managed on our PruLeads System as a percentage of total APE new business sales through the agency channel.

22 Leads from all sources recorded and managed on our PruLeads System.

23 The Chinese Mainland, Hong Kong, India, Indonesia, Japan, Malaysia, Singapore, South Korea, Taiwan, Thailand and Vietnam.

24 Sources: Chinese Mainland: based on new business single premiums from the CBIRC for foreign joint ventures only; Hong Kong: based on total in-force premiums; Indonesia: based on weighted new business premiums from the PLAI; Malaysia combined: based on APE sales from the Life Insurance Association of Malaysia; Singapore: based on weighted new business premium for regular premium from the Life Insurance Association of Singapore; India: based on retail weighted premium income among foreign players from the Insurance Regulatory and Development Authority of India; Vietnam: based on APE sales from the Vietnam Actuarial Network data sharing; Taiwan: based on APE sales from the Taiwan Life Insurance Association for foreign insurers; Thailand: based on weighted new business premiums from the Thailand Life Assurance Association for the first 11 months of 2022; Philippines: based on weighted full-year premiums from the Insurance Commission for the first 9 months of 2022; Cambodia: based on APE sales.

25 Full year 2022 total funds under management or advice, including external funds under management, money market funds, funds managed on behalf of M&G plc and internal funds under management or advice, reported based on the country where the funds are managed, including joint ventures.

26 Our investment portfolio includes both listed equities and corporate bonds, while excluding assets held by joint venture businesses and assets in unit-linked funds as we do not have full authority to change the investment strategies of these.

27 Whole Group Full Time Equivalent including Chair, all Directors, GEC members, and Senior Managers, excluding joint ventures.

28 United Nations, Department of Economic and Social Affairs, Population Division, World Population Prospects 2022.

29 Sources: Mainland China (Based on new business standard premiums for 2022 of the foreign joint ventures only, data from industry sharing of information), Hong Kong (Based on PHKL APE for 2022 from Hong Kong Insurance Authority), Indonesia (Based on weighted new premiums for 2022, preliminary results from Indonesian Life Insurance Association), Malaysia (On combined basis where Takaful is on 100%. Based on new business APE for 2022, data from Life Insurance Association of Malaysia for Conventional Business and Insurance Service Malaysia for Takaful business), Singapore (Based on weighted new business premiums reported within Singapore Life Insurance Association returns for 2022), India (Based on retail weighted premium for the calendar year 2022 of private insurers operating in India, from the Life Insurance Council), Taiwan (Based on full year 2022 APE of foreign insurers, data from Taiwan Insurance Institute), Vietnam (Based on full year 2022 APE data collected from data sharing by Vietnam Actuarial Network), Laos (Based on gross written premiums for 2021, from Axco Insurance Market Report), the Philippines (Based on weighted first year premiums for the first nine months in 2022, data from Insurance Commission), Cambodia (Based on full year 2022 adjusted APE, from Insurance Association of Cambodia), Thailand (Based on weighted new business premium for 2022, from The Thai Life Assurance Association), Myanmar (Based on APE for the first nine months in 2022 for the foreign insurers operating in Myanmar, from Myanmar Insurance Association).

30 Virtual sales are sales that are closed via Digital, Cloud and Electronic Signature.

31 Source: based on APE sales from Hong Kong Insurance Authority for 2022.

32 Source: based on GDP data sourced from the World Bank and www.bayarea.gov.hk websites.

33 Source: World Population Review – Country Rankings – Muslim population by country.

34 Source: Bank Negara Malaysia, Financial Sector Blueprint 2022-2026.

35 Source: Based on APE sales from the Insurance services Malaysia (ISM) for the Takaful business at 100 per cent.

36 Source: UNU-WIDER, World Income Inequality Database (WIID), World Bank, IMF, United Nations Population Division, HSBC forecasts.

37 The number of customers is based on Prudential Singapore's internal estimates.

38 Source: Based on data from the World Bank organisation: Urban population (% of total population).

39 Source: Central Committee Vietnamese Communist Party, Resolution Number 06-NQ/TW on planning, construction, management, and sustainable development of urban areas in Vietnam until 2030, with a vision toward 2045, 24 January 2022.

40 Source: Global data report, Taiwan (Province of China) Life Insurance Market Size, Trends by Line of Business (General Annuity and Personal, Accident and Health), Distribution Channel, Competitive Landscape and Forecast, 2021-2026, November 2022.

41 New customers defined as the sum newly joined customers and newly joined who were lost but reinstated.

42 Source: The Thai Life Assurance Association's Life Insurance Business Report, data as of November 2022 year-to-date.

43 CIMB Philippines number of customers as at 31 December 2022 based on the full year 2022 results.

44 On an actual exchange rate basis.

45 Including money market funds and funds managed on behalf of M&G plc.

46 The value of assets under management at 31 December 2022 in funds which outperform their performance benchmark as a percentage of total assets under management at 31 December 2022, excluding assets in funds with no performance benchmark.

47 ICICI Prudential financial year runs from 1 April to 31 March each year.

48 Based on Prudential Hong Kong Limited's APE for the discrete fourth quarter of 2022 from Hong Kong Insurance Authority.

Financial review

The Group delivered a resilient financial performance for the year against a backdrop of Covid-19-related disruption during the first half of 2022 in many of our markets and the broader macroeconomic and geopolitical volatility, discussed further below. The diversity of our business in terms of its geography, its multi-channel distribution and its customer-centric product suite positions us well to take advantage of the long-term opportunities as our markets recover from the effects of Covid-19.

The Group's 2022 financial performance saw us deliver growth across many of our key performance measures, with APE sales¹, operating free surplus generated², EEV operating profit and IFRS adjusted operating profit³ all higher than the prior year⁴. Although our new business profit generation⁵ of \$2.2 billion was lower, this largely reflected the impact of economic effects under our EEV framework, notably in Hong Kong. Our markets outside of Hong Kong delivered combined new business profit growth of 5 per cent⁴. IFRS profit for the year was also negatively impacted by the increases in interest rates and decreases in equity market values in the year, as further discussed below and in the section headed IFRS basis non-operating items.

2022 saw considerable macroeconomic volatility, characterised in many markets by lower equity index levels, material increases in government bond yields and widening corporate bond spreads. The MSCI Asia excluding Japan equity index fell (24) per cent, the Hang Seng index fell by (15) per cent and the CSI 300 index fell by (22) per cent while the S&P 500 index fell by (19) per cent. Government bond yields in many of our markets ended the year higher with the US 10-year yield increasing by 236 basis points to 3.9 per cent. As well as their impact on IFRS profit for the year, lower associated asset values and consequent impact on fee-generating account balances together with the impact of higher discount rates under our active EEV methodology, contributed to a fall in our embedded value in the year.

The year also saw the US dollar increase in value relative to many currencies globally, resulting in a translation headwind. As in previous years, we comment on our performance in local currency terms (expressed on a constant exchange rate basis) to show the underlying business trends in periods of currency movement, unless otherwise noted.

In 2022, the Group reported a 9 per cent⁴ increase in APE sales to \$4,393 million while new business profit was (11) per cent⁴ per cent lower at \$2,184 million. This encouraging APE sales performance, despite Covid-19-related disruption during the first half of the year, reflects the benefit of our diversification across geography, channel and products. APE sales were broadly balanced between Greater China⁶ and South-east⁷ Asia across our four main product groups, with an emphasis on health and protection, and across distribution channels with our bancassurance channel providing notable resilience in periods of disruption for our agency salesforce. Given the active basis of our EEV methodology, rising interest rates led to both higher risk discount rates and higher assumed fund earned rates being applied. As a consequence, there was an overall negative impact on EEV new business margins in many markets, particularly in Hong Kong which led to a reduction in new business profit in the year to \$2.2 billion (2021: \$2.4 billion⁴). Agency distribution and health and protection products remain our most important value drivers.

Group EEV operating profit increased by 15 per cent⁴ to \$3,952 million largely due to 13 per cent⁴ growth in operating returns from the long-term business. This reflects the higher expected return from underlying business growth and higher interest rates, partially offset by lower new business profit and a lower benefit from assumption changes than was seen in the prior year. Operating return on embedded value⁸ was 9 per cent compared with 8 per cent in 2021. After allowing for economic effects, such as changes in interest rates, currency movements and the payment of the external dividend, the Group's embedded value at 31 December 2022 was \$42.2 billion (31 December 2021: 47.4 billion⁹), equivalent to 1,534 cents per share (31 December 2021: 1,725 cents per share⁹). The operating free surplus generated from insurance and asset management business (after investment in new business) during the year was \$2,193 million, up 9 per cent⁴, reflecting the underlying in-force business growth and the positive effect of interest rate rises.

Group adjusted operating profit was up 8 per cent⁴ to \$3,375 million, reflecting a 6 per cent⁴ increase in operating profit from the insurance and asset management business and an improvement in central costs of 26 per cent⁴ reflecting lower interest costs. Adjusted operating profit from our long-term business was up 7 per cent⁴ to \$3,846 million despite the Covid-19-related headwinds seen over the last few years. The Group has completed its programme to deliver a targeted reduction in central operating expenses of \$70 million¹⁰ a year from the start of 2023 which, combined with previously completed savings, represents delivery of central cost reduction programmes since 2018 that in total have saved \$250 million¹¹ a year. The Group's total IFRS profit after tax from continuing operations was \$1,007 million (2021: profit of \$2,143 million on a constant exchange rate basis and \$2,214 million on an actual exchange rate basis), reflecting negative short-term fluctuations from higher interest rates and lower equity markets during the year. These negative effects were offset in part by the benefit from refinements to the reserving basis following the adoption of the Hong Kong Risk-Based Capital regime (HK RBC) for which we received approval from the regulator in April 2022, effective from 1 January 2022. The IFRS reserving basis for Hong Kong was refined to reflect the measurement techniques applied within HK RBC, leading to a reduction in policyholder liabilities (net of reinsurance) and an increase in profit before tax of \$945 million⁹. This was allocated between operating and non-operating profit in line with the Group's usual principles.

Our Group's regulatory capital position, free surplus and central liquidity positions remain robust. The Group's leverage remains near the bottom of our target range at 20 per cent, estimated on a Moody's basis, after allowing for the redemption of a £300 million senior bond in January 2023. As a result, supported by a clear and disciplined capital allocation policy, the Group is well positioned, with considerable financial flexibility including leverage capacity, to take advantage of the growth opportunities ahead.

The Group aligns its capital adequacy requirements with the established EEV and free surplus framework by comparing the total eligible Group capital resources with the Group's Prescribed Capital Requirement (GPCR) and this is explained further in the capital management section below. At 31 December 2022, the estimated shareholder surplus above the GPCR was \$15.6 billion¹² (31 December 2021: \$17.5 billion⁹) and cover ratio 307 per cent¹³ (31 December 2021: 320 per cent⁹). The surplus reduced due to adverse market movements in the year, reducing available capital more than the reduction in capital requirements.

During the year, the Group adopted both HK RBC for the Hong Kong business and the China Risk Oriented Solvency System Phase II (C-ROSS II) requirements in the Chinese Mainland with an improvement to the shareholder GWS capital surplus of total

eligible group capital resources over the Group Minimum Capital Requirement (GMCR) at 1 January 2022 by \$9.3 billion¹⁴, increasing the coverage ratio¹⁵ from 408 per cent to 545 per cent (after allowing for the debt redemption in January 2022). The GWS coverage ratio at 1 January 2022 measured on GPCR basis after the regulatory changes was 320 per cent. The Group's free surplus increased by \$1.4 billion as a result of the change on 1 January 2022. This is less than the increase in GWS surplus as free surplus excludes regulatory surplus and the HK RBC technical provisions for GWS are lower than policyholder asset shares or cash surrender floors, to reflect more realistically the surplus which can be remitted. The effect of the HK RBC implementation increased EEV by \$0.2 billion.

With effect from 1 January 2023, IFRS 17, the new accounting standard for insurance contracts that replaces IFRS 4, becomes effective and the Group's IFRS reporting will be prepared on this basis from half year 2023. While this is an important step for the Group and the wider insurance industry, this new accounting framework has no impact on the Group's capital generation or management, operating free surplus generation, business strategy, EEV basis results or dividend policy. Similarly, the new IFRS 17 framework has no impact on the total level of profit generated over the life of the policy, but it does change the timing of profit recognition. Upon transition from our IFRS 4 grandfathered local GAAP measures to IFRS 17, we expect an increase in opening shareholders' equity of between \$1.8 billion and \$2.7 billion from the \$17.1 billion dollars recorded under IFRS 4 at 31 December 2021. This reflects the release of prudent margins from our legacy accounting basis, particularly in Hong Kong, recognition of the shareholders' share of the inherited estate within the with-profit funds and the net impact of timing differences in the pattern of profit recognition. We have yet to complete the production of our half-year and full-year 2022 comparatives using the IFRS 17 accounting standard but we estimate that the net impact of timing differences between the two accounting bases will decrease the adjusted IFRS 17 operating profit for 2022 by between \$650 million and \$850 million compared with IFRS 4. The remaining uncertainty in the estimated impact will be addressed once full-year IFRS 17 results have been completed on the end state systems. Further disclosure of the impact on 2022 results will be provided in June 2023.

IFRS profit

	Actual exchange rate			Constant exchange rate	
	2022 \$m	2021 \$m	Change %	2021 \$m	Change %
Adjusted operating profit based on longer-term investment returns before tax from continuing operations					
CPL	368	343	7	329	12
Hong Kong	1,036	975	6	969	7
Indonesia	343	446	(23)	429	(20)
Malaysia	364	350	4	330	10
Singapore	678	663	2	646	5
Growth markets and other	1,057	932	13	880	20
Long-term business adjusted operating profit	3,846	3,709	4	3,583	7
Asset management	260	314	(17)	299	(13)
Total segment profit from continuing operations	4,106	4,023	2	3,882	6
Net investment income and other items	39	21	86	21	86
Interest payable on core structural borrowings	(200)	(328)	39	(328)	39
Corporate expenditure	(276)	(298)	7	(280)	1
Other income and expenditure	(437)	(605)	28	(587)	26
Total adjusted operating profit before tax and restructuring and IFRS 17 implementation costs	3,669	3,418	7	3,295	11
Restructuring and IFRS 17 implementation costs	(294)	(185)	(59)	(178)	(65)
Total adjusted operating profit before tax	3,375	3,233	4	3,117	8
Non-operating items:					
Short-term fluctuations in investment returns on shareholder-backed business	(1,915)	(458)	(318)	(435)	(340)
Amortisation of acquisition accounting adjustments	(10)	(5)	(100)	(5)	(100)
Profit (loss) attaching to corporate transactions	11	(94)	n/a	(91)	n/a
Profit from continuing operations before tax attributable to shareholders	1,461	2,676	(45)	2,586	(44)
Tax charge attributable to shareholders' returns	(454)	(462)	2	(443)	(2)
Profit from continuing operations for the year	1,007	2,214	(55)	2,143	(53)
Loss from discontinued operations for the year, net of related tax	-	(5,027)	n/a	(5,027)	n/a
Profit (loss) for the year	1,007	(2,813)	n/a	(2,884)	n/a

IFRS earnings per share

	Actual exchange rate			Constant exchange rate	
	2022 cents	2021 cents	Change %	2021 cents	Change %
Basic earnings per share based on adjusted operating profit after tax from continuing operations	100.5	101.5	(1)	97.7	3
Basic earnings per share based on:					
Total profit after tax from continuing operations	36.5	83.4	(56)	80.6	(55)
Total loss after tax from discontinued operations	-	(161.1)	n/a	(161.2)	n/a

Segment profit from continuing insurance and asset management business increased by 6 per cent⁴ to \$4,106 million despite a challenging environment over recent periods. All our major long-term business segments, other than Indonesia, delivered growth, demonstrating the resilient and diversified nature of our business. The 7 per cent⁴ growth in the adjusted operating profit of our long-term business was partially offset by a decline in Eastspring's adjusted operating profit following adverse market movements and seed capital losses over the year. After allowing for a 26 per cent⁴ reduction in central expenditure and higher restructuring and IFRS 17 implementation costs, total adjusted operating profit before tax increased to \$3,375 million, an 8 per cent⁴ increase compared with 2021.

CPL, our joint venture business in the Chinese Mainland, delivered a 12 per cent⁴ increase in adjusted operating profit to \$368 million reflecting growth in the underlying in-force portfolio from higher sales volumes in recent years and improved operating experience during the year.

In Hong Kong, our adjusted operating profit increased by 7 per cent⁴ to \$1,036 million benefiting from the accumulating nature of the asset shares underpinning our flagship critical illness product, higher levels of profits from our with-profits business given the ageing of certain cohorts, and the impact from changes to underlying product profit profiles as a result of the adoption of the risk-based capital regime previously discussed.

In Indonesia, adjusted operating profit reduced by (20) per cent⁴ to \$343 million, reflecting lower new business sales in recent years, lower fee income from unit-linked business due to adverse market movements and higher medical claims levels, specifically in the second half of the year, as the country emerged from the restrictions of the pandemic and policyholders felt more comfortable in undertaking usual medical activity.

In Malaysia, adjusted operating profit registered growth of 10 per cent⁴ to \$364 million supported by the growth of our in-force business, with shareholder-backed renewal premiums increasing by 8 per cent⁴.

In Singapore, adjusted operating profit increased by 5 per cent⁴ to \$678 million, reflecting the continued growth of our in-force business with shareholder-backed renewal premiums rising 9 per cent⁴ alongside higher profits from our with-profits business, offset in part by the impact on revenue from adverse market movements.

The businesses comprising our Growth markets and other segment generated adjusted operating profit of \$1,057 million, up 20 per cent⁴. This includes other items of \$211 million (2021: \$217 million on an actual exchange rate basis and \$208 million on a constant exchange rate basis) which in 2022 comprised largely the impact of the adoption of the HK RBC (as discussed further in note C3.2 of the IFRS financial results). The adjusted operating profit for the Growth markets (excluding other items) increased by 26 per cent⁴ to \$846 million, driven by Thailand and India. Thailand achieved 24 per cent⁴ growth in adjusted operating profit following growth in new business over recent years as we upscaled the business through our bank partnerships with TMB Thanachart Bank (TTB) and United Overseas Bank (UOB), while India saw improved claims experience in the period, following the spike in Covid-19 cases seen in 2021¹⁶.

Long-term insurance business adjusted operating profit drivers

Profit margin analysis of long-term insurance continuing operations¹⁷

	Actual exchange rate				Constant exchange rate	
	2022		2021		2021	
	\$m	Margin bps	\$m	Margin bps	\$m	Margin bps
Spread income	307	72	312	66	299	65
Fee income	331	102	345	103	329	103
With-profits	160	20	135	16	133	16
Insurance margin	3,219		2,897		2,795	
Other income	3,429		3,239		3,105	
Total life insurance income	7,446		6,928		6,661	
Expenses:						
Acquisition costs	(2,346)	(53)%	(2,085)	(50)%	(2,000)	(50)%
Administration expenses	(1,732)	(230)	(1,656)	(205)	(1,581)	(201)
DAC adjustments	554		566		545	
Share of related tax charges from joint ventures and associates	(76)		(44)		(42)	
Long-term business pre-tax adjusted operating profit	3,846		3,709		3,583	

Long-term business adjusted operating profit grew 7 per cent⁴ to \$3,846 million (2021: \$3,583 million⁴), driven principally by 15 per cent⁴ growth in insurance margin-related revenues. This increase arises both from the growth of our business in the current and recent years, supported by our focus on recurring premium health and protection products, and from the adoption of HK RBC in the year. While medical claims have begun to normalise (and increase) as people return to usual claim patterns post the pandemic, this has been balanced by a fall in mortality claims in the year.

Fee income increased by 1 per cent⁴, reflecting premium contributions largely offset by unfavourable market movements, while spread income increased by 3 per cent⁴, reflecting in-force business growth with the improvement in margin primarily driven by the impact of rising interest rates.

With-profits earnings relate to the shareholders' share in bonuses declared to policyholders. As these bonuses are typically weighted towards the end of a contract, under IFRS, with-profit earnings consequently emerge only gradually over time. The 20 per cent⁴ growth in with-profits earnings reflects the ongoing growth and aging of certain cohorts within these portfolios.

Other income primarily represents amounts deducted from premiums to cover acquisition costs and administration expenses. As such, the growth of 10 per cent⁴ from 2021 largely reflects premium growth in the year for our shareholder-backed business. Acquisition costs increased in the year, driven by higher APE sales as compared with the prior year. Administration expenses, including renewal commissions, increased by 10 per cent⁴, reflecting in-force business growth and sales and premium tax-related provisions. Both acquisition costs and administration expenses reflect our continued investment in the business to enhance and maintain our capabilities for future growth.

Asset management

	Actual exchange rate			Constant exchange rate	
	2022 \$m	2021 \$m	Change %	2021 \$m	Change %
External funds under management* (\$bn)	81.9	94.0	(13)	87.5	(6)
Funds managed on behalf of M&G plc (\$bn)	9.3	11.5	(19)	11.6	(20)
External funds under management (\$bn)	91.2	105.5	(14)	99.1	(8)
Internal funds under management (\$bn)	104.1	124.2	(16)	123.6	(16)
Internal funds under advice (\$bn)	26.1	28.8	(9)	28.9	(10)
Total internal funds under management or advice (\$bn)	130.2	153.0	(15)	152.5	(15)
Total funds under management or advice (\$bn)	221.4	258.5	(14)	251.6	(12)
Total external net flows*¹⁸	(1,586)	613	n/a	765	n/a
Analysis of adjusted operating profit					
Retail operating income	392	449	(13)	424	(8)
Institutional operating income	268	298	(10)	289	(7)
Operating income before performance-related fees	660	747	(12)	713	(7)
Performance-related fees	1	15	(93)	15	(93)
Operating income (net of commission)	661	762	(13)	728	(9)
Operating expense	(360)	(403)	11	(387)	7
Group's share of tax on joint ventures' adjusted operating profit	(41)	(45)	9	(42)	2
Adjusted operating profit	260	314	(17)	299	(13)
Adjusted operating profit after tax	234	284	(18)	271	(14)
Average funds under management or advice by Eastspring	\$229.4bn	\$251.7bn	(9)%	\$240.9bn	(5)%
Fee margin based on operating income	29bps	30bps	(1)bp	30bps	(1)bp
Cost/income ratio ¹⁹	55%	54%	+1ppt	54%	+1ppt

* Excluding funds managed on behalf of M&G plc.

Eastspring, the Group's asset management business, had total funds under management or advice²⁰ of \$221.4 billion at 31 December 2022 (31 December 2021: \$251.6 billion on a constant exchange rate basis). Compared with 2021, Eastspring's average funds under management or advice decreased by (5) per cent⁴ to \$229.4 billion (2021: \$240.9 billion⁴), reflecting adverse market movements during the year, partially offset by net inflows.

We saw total net inflows of \$4.5 billion over 2022 (2021: \$5.8 billion⁴) which included internal net inflows from our insurance businesses totalling \$7.8 billion (2021: \$10.4 billion⁴). These flows were partially offset by third-party outflows (excluding money market funds and funds managed on behalf of M&G plc) of \$(1.6) billion (2021: net inflows of \$0.8 billion⁴), primarily from our bond funds in the retail business following increases in interest rates throughout the year, and \$(0.8) billion (2021: \$(3.9) billion⁴) of net outflows from funds managed on behalf of M&G plc.

Eastspring's adjusted operating profit of \$260 million was down (13) per cent⁴ compared with the prior year, reflecting a decline in the average funds under management or advice and losses on shareholder investments including seed capital in its retail funds, compared with gains in 2021. Operating income before gains and losses on shareholder investments and performance-related fees was (4) per cent⁴ lower, reflecting a (5) per cent⁴ decline in average funds under management or advice. Despite a 7 per cent⁴ reduction in operating costs, the cost/income ratio increased marginally to 55 per cent (2021: 54 per cent⁴) due to the effect of mark-to-market movements on shareholders' investments.

Other income and expenditure

Central costs (before restructuring and IFRS 17 implementation costs) were 26 per cent⁴ lower than the prior period, reflecting the benefit of the debt reduction programme completed in January 2022. Interest payable on core structural borrowings reduced by \$128 million compared with 2021. Total head office expenditure was \$(276) million (2021: \$(280) million⁴) and the Group has completed its programme to deliver a targeted reduction in central operating expenses of around \$70 million¹⁰ of cost savings from 2023. Net investment income and other items for the year was \$39 million (2021: \$21 million⁴).

Restructuring costs of \$(294) million (2021: \$(178) million⁴) reflect the Group's substantial and ongoing IFRS 17 project, and one-off costs associated with cost saving, regulatory and other initiatives in our business. IFRS 17 costs are expected to remain elevated until the standard is fully implemented in 2023.

IFRS basis non-operating items

Non-operating items from continuing operations in the year consist mainly of negative short-term fluctuations in investment returns on shareholder-backed business of \$(1,915) million (2021: \$(435) million⁴) and a gain of \$11 million from corporate transactions (2021: loss of \$(91) million⁴).

The increase in the level of short-term fluctuations reflects the significant increase in interest rates during the year compared with 2021 and the fall in equity markets during the year, compared with equity market gains in 2021. Decreases in bond values from rising interest rates are not fully offset by reductions in policyholder liabilities as assets held will exceed liabilities, given the need to hold capital in line with local regulations, while some regimes have policyholder liabilities that do not directly reflect changes in

interest rates or reprice more slowly than assets. This loss was offset in part from the benefit arising from the early adoption of the HK RBC.

The adverse movements in investment returns largely occurred in Hong Kong and the Chinese Mainland and resulted in the losses after tax for those segments.

Corporate transactions include a \$62 million realised gain from the sale of 8.7 million shares in Jackson Financial Inc. during 2022. At 31 December 2022, we held 9.2 per cent of the shares²¹ in Jackson Financial Inc. which had a fair value of \$266 million. Further information on corporate transactions is presented in note D1.1 to the IFRS financial results.

IFRS effective tax rates for continuing operations

In 2022, the effective tax rate on adjusted operating profit was 18 per cent, broadly aligned with the prior year rate of 17 per cent.

The effective tax rate on total IFRS profit in 2022 was 31 per cent (2021: 17 per cent), reflecting the adverse impact of investment losses on which no tax credit is recognised.

From 2024 onwards, the effective tax rate on adjusted operating profit is likely to be impacted by a combination of the Organisation for Economic Co-operation and Development (OECD) proposals to implement a global minimum tax rate of 15 per cent and some jurisdictions where Prudential operates implementing a domestic minimum tax based on the OECD proposals. Through 2021, 2022 and early 2023, the OECD has issued model rules, guidance and a number of supplementary documents. Further OECD documents are expected during the course of 2023. A number of jurisdictions where Prudential has operations either have already issued or intend to issue draft legislation to implement the OECD rules into domestic tax law. Detailed analysis and consideration of all of these documents is ongoing.

Total tax contributions from continuing operations

The Group continues to make significant tax contributions in the jurisdictions in which it operates, with \$1,009 million remitted to tax authorities in 2022. This was similar to the equivalent amount of \$1,071 million⁹ remitted in 2021 after allowing for movements in exchange rates.

Change of tax residence of Prudential plc

In 2022 the Prudential Board decided, in the context of having demerged M&G plc in 2019 and Jackson Financial Inc. in 2021 and its now exclusive focus on the growth markets of Asia and Africa, that the roles of the Chief Executive Officer and Group Chief Financial Officer would be based in Asia where Prudential's largest businesses, the Group's regulator and the rest of the senior management team are located. As a result of these actions, the tax residence of Prudential plc has changed to Hong Kong with effect from 3 March 2023. This is an immediate consequence of a Board meeting of that date in Hong Kong, where the Board now regularly meets, and also the commencement of the new Chief Executive Officer's employment in Hong Kong on 25 February 2023. The change of tax residence to Hong Kong is not expected to impact materially the Group's total corporate income tax payment amounts or the location of those payments. Of the \$1,009 million total taxes remitted in 2022, over \$950 million related to our Asian and African insurance and asset management businesses who pay and collect taxes where they do business and where they make investments. None of these tax remittances will be affected by Prudential plc changing tax residence. This change does not impact Prudential plc's legal structure or place of incorporation which remains in the UK. Further detail, including tax guidance for relevant shareholders, can be found at www.prudentialplc.com.

Tax strategy

The Group publishes its tax strategy annually which, in addition to complying with the mandatory UK (Finance Act 2016) requirements, also includes a number of additional disclosures, including a country-by-country disclosure of revenues, profits, average employee numbers and taxes for all jurisdictions where more than \$5 million tax was paid. This disclosure is included as a way of demonstrating that our tax footprint (ie where we pay taxes) is consistent with our business footprint. An updated version of the tax strategy, including 2022 data, will be available on the Group's website before 31 May 2023.

Shareholders' equity

Group IFRS shareholders' equity

	2022 \$m	2021 \$m
Adjusted operating profit after tax attributable to shareholders from continuing operations	2,750	2,668
Profit from continuing operations for the year	1,007	2,214
Less non-controlling interest from continuing operations	(9)	(22)
Profit after tax for the year attributable to shareholders from continuing operations	998	2,192
Net decrease in shareholders' equity from discontinued operations (see note D1.2 in the IFRS financial results)	-	(6,283)
Demerger dividend in-specie of Jackson	-	(1,735)
Exchange movements, net of related tax	(531)	(165)
Other external dividends	(474)	(421)
Issue of equity shares	(4)	2,382
Other (including revaluation of Jackson residual interest since demerger)	(117)	240
Decrease in shareholders' equity	(128)	(3,790)
Shareholders' equity at beginning of the year	17,088	20,878
Shareholders' equity at end of the year	16,960	17,088
Shareholders' value per share¹⁹	617¢	622¢

Group IFRS shareholders' equity decreased marginally to \$17.0 billion at 31 December 2022, reflecting profit generated during the year, offset by dividend payments of \$(0.5) billion, adverse exchange movements of \$(0.5) billion and movements including the revaluation of the residual interest in Jackson Financial Inc.

Greater China presence

Prudential has a significant footprint in the Greater China region, with businesses in the Chinese Mainland (through its holding in CPL), Hong Kong and Taiwan.

The table below demonstrates the significant proportion of the Group's financial measures that were contributed by the Greater China region:

	Gross premiums earned*		New business profit	
	2022 \$m	2021 \$m	2022 \$m	2021 \$m
Total Greater China**	13,103	14,335	912	1,181
Total Group**	27,783	28,796	2,184	2,526
Percentage of total	47%	50%	42%	47%

* The gross earned premium amount shown above differs from that shown in the income statement as the above number includes the Group's share of amounts earned by associates and JVs. The gross earned premium amount reflects the Group's IFRS accounting policies. A reconciliation to the amount included in the income statements is included in note II of the Additional unaudited financial information.

** Total Greater China represents the amount contributed by the long-term business in Hong Kong, Taiwan and the Group's share of the amounts earned by CPL. The Group total includes the Group's share of the amounts earned by all long-term business joint ventures and associates.

EEV basis results

EEV basis results from continuing operations

	Actual exchange rate			Constant exchange rate	
	2022 \$m	2021 \$m	Change %	2021 \$m	Change %
New business profit	2,184	2,526	(14)	2,443	(11)
Profit from in-force business	2,358	1,630	45	1,588	48
Operating profit from long-term business	4,542	4,156	9	4,032	13
Asset management	234	284	(18)	271	(14)
Other income and expenditure ²²	(824)	(897)	8	(874)	6
Operating profit for the year from continuing operations	3,952	3,543	12	3,429	15
Non-operating loss	(7,523)	(306)	(2,358)	(261)	(2,782)
(Loss) profit for the year from continuing operations	(3,571)	3,237	(210)	3,168	(213)
Dividends paid	(474)	(421)			
Share capital issued	(4)	2,382			
Foreign exchange movements	(1,195)	(460)			
Other movements	(156)	691			
Net (decrease) increase in EEV shareholders' equity from continuing operations	(5,400)	5,429			
EEV shareholders' equity from continuing operations at 1 Jan	47,355	41,926			
Effect of HK RBC	229	-			
EEV shareholders' equity from continuing operations at 31 Dec	42,184	47,355			
% New business profit/average EEV shareholders' equity for continuing long-term business operations ¹	5%	6%			
% Operating profit/average EEV shareholders' equity for continuing operations	9%	8%			

* Excluding goodwill attributable to equity holders

EEV shareholders' equity	Actual exchange rate	
	31 Dec 2022 \$m	31 Dec 2021 \$m
Represented by:		
CPL	3,259	3,114
Hong Kong	16,576	21,460
Indonesia	1,833	2,237
Malaysia	3,695	3,841
Singapore	6,806	7,732
Growth markets and other	6,688	6,262
Embedded value from long-term business excluding goodwill	38,857	44,646
Asset management and other excluding goodwill	2,565	1,931
Goodwill attributable to equity holders	762	778
Group EEV shareholders' equity	42,184	47,355
EEV shareholders' equity per share	1,534¢	1,725¢

EEV new business profit and APE new business sales (APE sales)

	Actual exchange rate						Constant exchange rate			
	2022 \$m		2021 \$m		Change %		2021 \$m		Change %	
	APE sales	New business profit	APE sales	New business profit	APE sales	New business profit	APE sales	New business profit	APE sales	New business profit
CPL	884	387	776	352	14	10	743	337	19	15
Hong Kong	522	384	550	736	(5)	(48)	546	731	(4)	(47)
Indonesia	247	125	252	125	(2)	-	243	120	2	4
Malaysia	359	159	461	232	(22)	(31)	434	219	(17)	(27)
Singapore	770	499	743	523	4	(5)	724	510	6	(2)
Growth markets and other	1,611	630	1,412	558	14	13	1,323	526	22	20
Total	4,393	2,184	4,194	2,526	5	(14)	4,013	2,443	9	(11)
Total new business margin		50%		60%				61%		

EEV operating profit from continuing operations increased by 15 per cent⁴ to \$3,952 million, reflecting increased operating profit from the in-force business and an improvement in central costs; partially offset by a decline in the contribution from new business profit and lower profit from the asset management business. The operating return on embedded value was 9 per cent (2021: 8 per cent⁹).

The profit from long-term business is driven by the expected return and effects of operating assumption changes and operating experience variances. The expected return increased 50 per cent⁴ to \$2,559 million, reflecting the combined effects of underlying business growth and, more significantly, the impact of higher interest rates. Operating assumption changes and experience variances were negative \$(201) million on a net basis compared with \$(116) million⁴ in 2021, reflecting a lower level of favourable assumption changes in the current year.

APE sales increased by 9 per cent⁴ to \$4,393 million and related new business profit decreased by (11) per cent⁴, reflecting the impact of higher interest rates and business mix effects. Excluding economic effects new business profit was \$2,357 million, a fall of (4) per cent⁴ from the prior year. Detailed discussion of new business performance by segment is presented in the Strategic and operating review.

The non-operating loss of \$(7,523) million (2021: loss of \$(261) million⁴) is driven largely by rising interest rates and falling equity markets over the year leading to reduced asset values with a consequential impact on future profits. Higher interest rates also increased risk discount rates, which have a negative effect on health and protection profits. This negative effect more than outweighed the benefit on our savings products of increases to the assumed level of future investment returns.

Overall, EEV shareholders' equity from continuing operations decreased at 31 December 2022 to \$42.2 billion (31 December 2021: \$47.4 billion⁹). Of this, \$38.9 billion (31 December 2021: \$44.6 billion⁹) relates to the long-term business. This amount includes our share of our India associate valued using embedded value principles. The market capitalisation of this associate at 31 December 2022 was circa \$7.8 billion, which compares with a publicly reported embedded value of circa \$4.0 billion at 30 September 2022.

EEV shareholders' equity on a per share basis at 31 December 2022 was 1,534 cents (31 December 2021: 1,725 cents⁹).

Group free surplus generation from continuing operations

Free surplus is the metric we use to measure the internal cash generation of our business operations and broadly reflects the amount of money available to our operational businesses for investing in new business, strengthening our capacity and capabilities to grow the business, and potentially paying returns to the Group. For our insurance businesses it largely represents the Group's available regulatory capital resources after allowing for the prescribed required regulatory capital held to support the policies in issue, with a number of adjustments so that the free surplus better reflects resources potentially available for distribution to the Group. For our asset management businesses, Group holding companies and other non-insurance companies, the measure is based on IFRS net assets with certain adjustments, including to exclude accounting goodwill and to align the treatment of capital with our regulatory basis. Operating free surplus generation represents amounts emerging from the in-force business during the year, net of amounts reinvested in writing new business. For asset management businesses, it equates to post-tax adjusted operating profit for the year. Further information is contained in note 8.1(e) of the EEV basis results.

Analysis of movement in Group free surplus

	Actual exchange rate			Constant exchange rate	
	2022 \$m	2021 \$m	Change %	2021 \$m	Change %
Expected transfer from in-force business and return on existing free surplus	2,753	2,497	10	2,408	14
Changes in operating assumptions and experience variances	(227)	(173)	(31)	(158)	(44)
Operating free surplus generated from long-term business before restructuring costs	2,526	2,324	9	2,249	12
Investment in new business	(567)	(537)	(6)	(516)	(10)
Asset management	234	284	(18)	271	(14)
Operating free surplus generated from life business and asset management before restructuring costs	2,193	2,071	6	2,004	9
Central costs and eliminations (net of tax):					
Net interest paid on core structural borrowings	(200)	(328)	39	(328)	39
Corporate expenditure	(276)	(292)	5	(261)	(6)
Other items and eliminations	(66)	(103)	36	(118)	44
Restructuring and IFRS 17 implementation costs (net of tax)	(277)	(169)	(64)	(162)	(71)
Net Group operating free surplus generated for continuing operations	1,374	1,179	17	1,135	21
Non-operating and other movements, including foreign exchange	(2,367)	330			
Recognition of residual interest in Jackson at demerger	-	493			
External cash dividends	(474)	(421)			
Share capital issued	(4)	2,382			
Treatment of grandfathered debt instruments under the GWS Framework ²³	-	1,995			
(Decrease) increase in Group free surplus from continuing operations before net subordinated debt redemption	(1,471)	5,958			
Net subordinated debt redemption	(1,699)	(232)			
(Decrease) increase in Group free surplus from continuing operations before amounts attributable to non-controlling interests	(3,170)	5,726			
Change in amounts attributable to non-controlling interests	(10)	(21)			
Free surplus at 1 Jan from continuing operations	14,049	8,344			
Effect of HK RBC	1,360	-			
Free surplus at 31 Dec from continuing operations	12,229	14,049			
Free surplus at 31 Dec excluding distribution rights and other intangibles	8,390	10,083			

Our Group generated an operating free surplus from insurance and asset management operations before restructuring costs of \$2,193 million, up 9 per cent⁴, largely reflecting the underlying business growth from our in-force insurance book and positive effects of interest rates. The cost of investment in new business increased by 10 per cent⁴ broadly in line with the increase in APE sales of 9 per cent⁴, with the benefit from regulatory changes in Hong Kong and higher interest rates offset by changes in business mix. After allowing for lower interest payments on the Group's central debt and higher restructuring and IFRS 17 costs, total Group free surplus generation was up 21 per cent⁴ to \$1,374 million.

Operating free surplus generated was offset by the negative impact of market and currency movements in the period. After allowing for these losses, the redemption of debt (which is treated as capital for free surplus purposes), the external dividend payment and the \$1.4 billion benefit from adopting HK RBC at 1 January 2022, free surplus at 31 December 2022 was \$12.2 billion. Excluding distribution rights and other intangibles it was \$8.4 billion. In January 2023 Group free surplus was reduced by \$0.4 billion following the redemption of a £300 million senior bond.

Dividend

Reflecting the Group's capital allocation priorities, a portion of capital generation will be retained for reinvestment in the business, and dividends will be determined primarily based on the Group's operating capital generation after allowing for the capital strain of writing new business and recurring central costs. Dividends are expected to grow broadly in line with the growth in the Group's operating free surplus generation net of right-sized central costs, and will be set taking into account financial prospects, investment opportunities and market conditions.

The Board has approved a 2022 second interim cash dividend of 13.04 cents per share (2021: 11.86 cents per share⁹). Combined with the first interim cash dividend of 5.74 cents per share (2021: 5.37 cents per share⁹), the Group's total 2022 cash dividend is 18.78 cents per share (2021: 17.23 cents per share⁹), an increase of 9 per cent⁹.

Group capital position

Prudential applies the Insurance (Group Capital) Rules set out in the GWS Framework issued by the Hong Kong Insurance Authority to determine Group regulatory capital requirements (both minimum and prescribed levels). The GWS Group capital adequacy requirements require that total eligible Group capital resources are not less than the GPCR and that GWS Tier 1 group capital resources are not less than the GMCR. In line with the changes at half year 2022 and the updated GWS disclosure guidelines issued by the Hong Kong Insurance Authority in December 2022, the GWS capital disclosures present the Group capital position by comparing the total eligible group capital resources to the GPCR, aligned with the basis of our EEV capital requirements. In addition, the total regulatory Tier 1 capital resources relative to the GMCR is also disclosed. More information is set out in note I(i) of the Additional unaudited financial information.

The Group holds material participating business in Hong Kong, Singapore and Malaysia. Alongside the regulatory GWS capital basis, a shareholder GWS capital basis is also presented which excludes the contribution to the Group GWS eligible group capital resources, the GMCR and the GPCR from these participating funds.

During the year, Group adopted C-ROSS Phase II requirements in the Chinese Mainland and the HK RBC for the Hong Kong business following the receipt of approval from the Hong Kong Insurance Authority to early-adopt the new Risk-Based Capital regime effective from 1 January 2022. These changes are estimated to have increased the GWS shareholder surplus over the GMCR by \$9.3 billion¹⁴ and to have increased the corresponding coverage ratio from 408 per cent to 545 per cent¹⁵ as at 31 December 2021, after allowing for the \$1.7 billion debt redemption in January 2022. As at 31 December 2021 the corresponding GWS shareholder capital surplus over the GPCR is estimated to have been \$17.5 billion¹² with a corresponding GWS coverage ratio of 320 per cent¹³. When including the contribution from ring-fenced policyholder funds, the total surplus over the GPCR is estimated to have been \$21.4 billion¹², with a corresponding GWS coverage ratio of 204 per cent¹³.

As at 31 December 2022, the estimated shareholder GWS capital surplus over the GPCR is \$15.6 billion¹² (31 December 2021: \$17.5 billion⁹), representing a coverage ratio of 307 per cent¹³ (31 December 2021: 320 per cent⁹) and the estimated total GWS capital surplus over the GPCR is \$18.1 billion¹² (31 December 2021: \$21.4 billion⁹) representing a coverage ratio of 202 per cent¹³ (31 December 2021: 204 per cent⁹). The estimated Group Tier 1 capital resources are \$17.4 billion²⁵ with estimated GWS Tier 1 surplus over the GMCR of \$12.1 billion¹⁴ (31 December 2021: \$14.9 billion⁹), representing a coverage ratio of 328 per cent¹⁵ (31 December 2021: 328 per cent⁹).

The Group shareholder GWS capital surplus over the GPCR reduced by \$(1.9) billion⁹ to \$15.6 billion at 31 December 2022. Operating capital generation in the period was \$1.4 billion after allowing for central costs and investment in new business. The impact of non-operating and other items, including market movements, were negative overall and reduced surplus by \$(2.8) billion. Dividends of \$0.5 billion were paid to shareholders in respect of the 2022 first interim dividend.

The Group's GWS position is resilient to external macroeconomic movements as demonstrated by the sensitivity disclosure contained in note I(i) of the Additional unaudited financial information, alongside further information on the GWS measure.

	31 Dec 2022 (post regulatory updates)			31 Dec 2021 ²⁴ (post regulatory updates)		
	Shareholder	Policyholder*	Total**	Shareholder	Policyholder*	Total**
Group capital resources (\$bn)	23.2	12.6	35.8	25.5	16.5	42.0
of which: Tier 1 capital resources ²⁵ (\$bn)	15.9	1.5	17.4	17.9	3.5	21.4
Group Minimum Capital Requirement (\$bn)	4.4	0.9	5.3	4.7	1.8	6.5
Group Prescribed Capital Requirement (\$bn)	7.6	10.1	17.7	8.0	12.6	20.6
GWS capital surplus over GPCR (\$bn)	15.6	2.5	18.1	17.5	3.9	21.4
GWS coverage ratio over GPCR (%)	307%		202%	320%		204%
GWS coverage ratio (over GMCR) (%)			12.1			14.9
GWS Tier 1 coverage ratio over GMCR (%)			328%			328%

* This allows for any associated diversification impacts between the shareholder and policyholder positions reflected in the total company results where relevant.

** The total company GWS coverage ratio over GPCR presented above represents the eligible group capital resources coverage ratio as set out in the GWS framework while the total company GWS tier 1 coverage ratio over GMCR represents the tier 1 group capital coverage ratio.

The 31 December 2022 GWS capital results do not reflect the impact of the redemption of \$0.4 billion of senior debt in January 2023. Allowing for this redemption reduces the shareholder GWS capital surplus over GPCR to \$15.2 billion with a coverage ratio of 302 per cent and reduces the total GWS capital surplus over GPCR to \$17.7 billion with a coverage ratio of 200 per cent. The total GWS Tier 1 over GMCR capital position is unaffected by this redemption.

GWS risk appetite and capital management

The Group's capital management framework focuses on achieving sustainable, profitable growth and retaining a resilient balance sheet.

The Group monitors regulatory capital, economic capital and rating agency capital metrics and manages the business within its risk appetite by remaining within its economic and regulatory capital limits. In respect of regulatory capital limits, a capital buffer above the GPCR is held to ensure the Group can withstand volatility in markets and operational experience, with capital resources remaining sufficient to cover the GPCR even after significant stresses. The calibration of the capital buffer reflects the Group's risk profile and the external economic environment, and is set and reviewed regularly by the Board.

Typically, this requires a Group shareholder coverage ratio of above 150 per cent of the shareholder GPCR to be maintained and de-risking management actions will be taken as necessary to maintain this buffer. No maximum limit on the GWS coverage ratio has been set. While the GWS shareholder capital position is a key metric for assessing regulatory solvency, and for risk management, there are some elements of the shareholder GWS capital surplus which will only become available as cash flow for distribution over time. The Group's Free Surplus metric is a better measure of the shareholder capital available for distribution, and is used as the primary metric for assessing the Group's sources and uses of capital in the Group's capital management framework, and underpinning the Group's dividend policy.

At 31 December 2022, the Group's Free Surplus stock (excluding distribution rights and other intangibles) was \$8.4 billion, compared with the GWS shareholder surplus of \$15.6 billion and a reconciliation is shown in note I(i) of the Additional unaudited financial information.

The uses of capital, for both organic and inorganic opportunities, are assessed by reference to expected shareholder returns and payback periods, relative to risk-adjusted hurdle rates which are set centrally.

Reflecting the Group's capital allocation priorities, a portion of the free surplus generated in each period will be retained for reinvestment in the business, and dividends will be determined primarily based on the Group's operating free surplus generation after allowing for the capital strain of writing new business and recurring central costs (on a right-sized basis). To the extent that free surplus arises which is not required to support organic and inorganic growth opportunities, consideration will be given to returning capital to shareholders.

Separate from the capital management framework applied for shareholder-owned capital, the capital held in ring-fenced with-profits funds supports policyholder investment freedom, which increases expected returns for our with-profits funds' customers. GWS policyholder capital surplus is not available for distribution out of the ring-fenced funds other than as a defined proportion distributable to shareholders when policyholder bonuses are declared. Policyholder fund capital surplus is deployed over time to increase investment risk in the with-profits funds in order to target higher customer returns, or distributed as higher customer bonuses, in line with the specific with-profits bonus policies which apply to each ring-fenced fund. The result of applying these policies is that the aggregate policyholder fund GPCR coverage ratio is typically lower than the GPCR shareholder coverage ratio.

The total GWS coverage ratio, which is an aggregate of the policyholder and shareholder capital positions, is therefore usually lower than the shareholder coverage ratio, but also less sensitive in stress scenarios, as is shown in the GWS sensitivity analysis section above as at 31 December 2022. The total GWS coverage ratio is the Group's regulatory solvency metric to which Group supervision applies, and this total regulatory coverage ratio is managed to ensure it remains above the GPCR by applying separate shareholder and policyholder risk appetite limits, as described above.

Financing and liquidity

At 31 December 2022, the Group's net gearing ratio as defined in the table below was 7 per cent, after reflecting the refined definition of holding company cash and short-term investments as discussed below, but excluding the impact of the redemption on 20 January 2023 of the £300 million senior bond, with a carrying value of \$361 million at 31 December 2022. The Group manages its leverage on a Moody's total leverage basis, which differs from the above by taking into account gross debt, including commercial paper, and also allows for a proportion of the surplus within the Group's with-profits funds. We estimate the Moody's total leverage at 31 December 2022 to be 21 per cent (31 December 2021: 26 per cent⁹). After allowing for the redemption in January 2023 of the £300 million senior bond we estimate that Moody's total leverage would be 20 per cent.

Prudential is targeting a Moody's total leverage ratio of around 20 to 25 per cent over the medium term. Prudential may operate outside this range temporarily to take advantage of growth opportunities with attractive risk-adjusted returns as they arise, while still preserving its strong credit ratings.

Prudential seeks to maintain its financial strength rating with applicable credit rating agencies, which derives, in part, from its high level of financial flexibility to issue debt and equity instruments, which is intended to be maintained in the future.

Net core structural borrowings of shareholder-financed businesses

	31 Dec 2022 \$m			31 Dec 2021 \$m		
	IFRS basis	Mark-to-market value	EEV basis	IFRS basis	Mark-to-market value	EEV basis
Borrowings of shareholder-financed businesses	4,261	(427)	3,834	6,127	438	6,565
Less: holding company cash and short-term investments ²⁶	(3,057)	-	(3,057)	(3,572)	-	(3,572)
Net core structural borrowings of shareholder-financed businesses	1,204	(427)	777	2,555	438	2,993
Net gearing ratio*	7%			13%		

* Net core structural borrowings from continuing operations as proportion of IFRS shareholders' equity from continuing operations plus net core structural borrowings from continuing operations, as set out in note II of the Additional unaudited financial information.

The total borrowings of the shareholder-financed businesses from continuing operations were \$4.3 billion at 31 December 2022 and the Group had central cash resources of \$3.1 billion²⁶ at the same date resulting in net core structural borrowings of the shareholder-financed businesses of \$1.2 billion. We have complied with all of the covenants and undertakings of our core structural borrowings and have not modified any of their terms during 2022.

The Group has two securities that reach maturity in 2023; the £300 million senior bonds that were redeemed on 20 January 2023 and a €20 million medium-term note that falls due in July 2023. In addition, the Group has a \$750 million perpetual note that reached its first call date in January 2023 at which time the Group's management elected not to call it. We retain the right to call this security at par on a quarterly basis hereafter. The Group's remaining securities have contractual maturities that fall between 2029 and 2033. Further analysis of the maturity profile of borrowings is presented in note C2.3 to the IFRS financial results.

In addition to its net core structural borrowings of shareholder-financed businesses set out above, the Group is able to access funding via the medium-term note programme, the US shelf programme (the platform for issuance of SEC registered bonds in the US market), a commercial paper programme and committed revolving credit facilities. All of these are available for general corporate purposes. Proceeds from the Group's commercial paper programme are not included in the holding company cash and short-term investment balance.

Prudential plc has maintained a consistent presence as an issuer in the commercial paper market for the past decade and had \$501 million in issue at 31 December 2022 (31 December 2021: \$500 million⁹).

As at 31 December 2022, the Group had a total of \$2.6 billion of undrawn committed facilities, expiring in 2026. Apart from small drawdowns to test the process, these facilities have never been drawn, and there were no amounts outstanding at 31 December 2022.

Cash remittances

Holding company cash flow

	Actual exchange rate		
	2022 \$m	2021 \$m	Change %
Net cash remitted by business units²⁷	1,304	1,451	(10)
Net interest paid	(204)	(314)	35
Corporate expenditure ²⁸	(232)	(322)	28
Centrally funded recurring bancassurance fees	(220)	(176)	(25)
Total central outflows	(656)	(812)	19
Holding company cash flow before dividends and other movements	648	639	
Dividends paid	(474)	(421)	
Operating holding company cash flow after dividends but before other movements	174	218	
Issuance and redemption of debt	(1,729)	(255)	
Hong Kong public offer and international placing	-	2,374	
Other corporate activities	248	(199)	
US demerger costs	-	(30)	
Total other movements	(1,481)	1,890	
Total holding company cash flow	(1,307)	2,108	
Cash and short-term investments at the beginning of the year	3,572	1,463	
Foreign exchange and other movements	(113)	1	
Inclusion of amounts at 31 Dec from additional centrally managed entities	905	-	
Cash and short-term investments at the end of the year	3,057	3,572	

Remittances from our businesses were \$1,304 million (2021: \$1,451 million⁹). Remittances were used to meet central outflows of \$(656) million (2021: \$(812) million⁹) and to pay dividends of \$(474) million. Central outflows include net interest paid of \$(204) million (2021: \$(314) million⁹), corporate expenditure of \$(232) million (2021: \$(322) million⁹) and centrally funded recurring bancassurance fees of \$(220) million (2021: \$(176) million⁹).

Other cash flow movements included net receipts from other corporate activities of \$248 million (2021: \$(199) million⁹ net payments) comprising proceeds of \$315 million received from the sales of shares in Jackson Financial Inc. together with dividends from Jackson Financial Inc., partially offset by cash provided for investment by the businesses mainly in digital infrastructure. Our debt redemption and refinancing programme was completed in January 2022 at a cost of \$1,725 million. We also settled a bank loan in the year funded by the issue of new senior debt at a net outflow of \$4 million.

The definition of holding company cash and short-term investments has been updated, with effect from 31 December 2022, following the combination of the Group's London office and Asia regional office into a single Group Head Office in 2022. This updated definition includes all cash and short-term investments held by central holding and service companies, including amounts previously managed on a regional basis. These balances are now being centrally managed by the Group's Treasury function. This refinement increased holding company cash and short-term investment balances by \$0.9 billion at 31 December 2022. After reflecting this refinement, cash and short-term investments totalled \$3.1 billion at 31 December 2022 (31 December 2021: \$3.6 billion⁹). The redemption of debt in January 2023 reduced this balance by \$371 million.

The Group will continue to seek to manage its financial condition such that it has sufficient resources available to provide a buffer to support the retained businesses in stress scenarios and to provide liquidity to service central outflows.

Notes

- APE sales is a measure of new business activity that comprises the aggregate of annualised regular premiums and one-tenth of single premiums on new business written during the year for all insurance products, including premiums for contracts designated as investment contracts under IFRS 4. It is not representative of premium income recorded in the IFRS financial results. See note II of the Additional unaudited financial information for further explanation.
- For insurance operations, operating free surplus generated represents amounts emerging from the in-force business during the year net of amounts reinvested in writing new business and excludes non-operating items. For asset management businesses, it equates to post-tax operating profit for the year. Restructuring costs are presented separately from the business unit amount. Further information is set out in 'movement in Group free surplus' of the EEV basis results.
- 'Adjusted operating profit' refers to adjusted IFRS operating profit based on longer-term investment returns from continuing operations. This alternative performance measure is reconciled to IFRS profit for the period in note B1.1 of the IFRS financial results.
- On a constant exchange rate basis.
- New business profit, on a post-tax basis, on business sold in the period, calculated in accordance with EEV Principles.
- Greater China comprises of our businesses in the Chinese Mainland, Hong Kong and Taiwan.
- South-east Asia comprises of our businesses in Asia excluding the Chinese Mainland, Hong Kong, Taiwan and India.
- Operating return calculated as operating profit divided by the average EEV shareholders' equity for continuing operations. See note II(x) of the Additional unaudited financial information for definition and calculation.
- On an actual exchange rate basis.
- As compared with full year 2021 actual expenditure of \$298 million and assuming no significant change in current exchange rates.
- Represents previously referred to \$70 million costs savings from the start of 2023, compared with full year 2021 actual expenditure, together with \$180 million of cost savings delivered from the start of 2021 compared with full year 2018 actual expenditure.
- Estimated GWS capital resources in excess of the GPCR attributable to the shareholder business, before allowing for the 2022 second cash interim dividend. Prescribed capital requirements are set at the level at which the local regulator of a given entity can impose penalties, sanctions or intervention measures. The estimated GWS group capital adequacy requirements require that total eligible Group capital resources are not less than the GPCR.
- Estimated GWS coverage ratio of capital resources over GPCR attributable to the shareholder business, before allowing for the 2022 second cash interim dividend.
- Estimated GWS capital resources in excess of the GMCR attributable to the shareholder business, before allowing for the 2022 second cash interim dividend. Under the GWS Framework, all debt instruments (senior and subordinated) issued by Prudential plc at 30 June 2022 are included as GWS eligible group capital resources.
- Estimated GWS coverage ratio of capital resources over GMCR attributable to shareholder business, before allowing for the 2022 second cash interim dividend.
- Our World in Data, India confirmed Covid-19 cases.
- For discussion on the basis of preparation of the sources of earnings in the table see note I(ii) of the Additional unaudited financial information.
- Excludes Money Market Funds.
- See note II of the Additional unaudited financial information for definition and reconciliation to IFRS balances.
- Full-year 2022 total funds under management or advice including external funds under management, money market funds, funds managed on behalf of M&G plc and internal funds under management or advice.

- 21 Jackson Financial Inc. shares held by Prudential as a percentage of Jackson Financial Inc. Shares disclosed as outstanding as at 31 December 2022.
- 22 Other income and expenditure includes restructuring and IFRS 17 implementation costs.
- 23 Debt not denominated in USD is translated using exchange rates as at 31 December 2020 for the purposes of grandfathering.
- 24 31 December 2021 comparative amounts include the effect of the adoption of HK RBC, C-ROSS Phase II and the redemption of \$1,725 million of sub-ordinated debt completed in January 2022.
- 25 The classification of tiering of capital under the GWS framework reflects the different local regulatory regimes along with guidance issued by the Hong Kong IA.
- 26 The definition of holding company cash and short-term investments has been updated, with effect from 31 December 2022, following the combination of the Group's London office and Asia regional office into a single Group Head Office in 2022. This updated definition includes all cash and short-term investments held by central holding and service companies, including amounts previously managed on a regional basis. These balances are now being centrally managed by the Group's Treasury function.
- 27 Net cash amounts remitted by businesses are included in the holding company cash flow, which is disclosed in detail in note I(v) of the Additional unaudited financial information. This comprises dividends and other transfers from businesses that are reflective of earnings and capital generation.
- 28 Including IFRS 17 implementation and restructuring costs paid in the year.

Risk review

Enabling effective risk-based decision-making in a complex world

In the face of significant market volatility and uncertainty, Prudential's Group Risk Framework, risk appetite, and robust governance have allowed the business to manage and control its risk exposure dynamically and effectively throughout 2022, in order to achieve the Group's strategy of delivering value for our shareholders and all our stakeholders. This section explains the main risks inherent in the business and how Prudential manages those risks, with the aim of ensuring an appropriate risk profile is maintained.

1 Introduction

The Group

Following key actions taken in 2021 to reshape Prudential into an Asia and Africa-focused business, the Group has transformed its leadership structure and its strategic and operating models as it continues to enhance its focus on its customers, as well as adapting a multi-channel distribution model to reflect evolving markets and external operating conditions. The Group Risk, Compliance and Security (RCS) function continues to provide risk opinions, guidance, assurance and engagement with Prudential's Group-wide supervisor, the Hong Kong Insurance Authority (IA), on these critical activities, while overseeing the risks and implications to the ongoing business in order to ensure the Group remains within approved risk appetite, at all times, in the backdrop of increased complexity of the macroeconomic, geopolitical and regulatory environments. During 2022, the Group achieved notable milestones with the completion of all agreed transitional arrangements to fully implement the Hong Kong IA GWS Framework, the implementation of the C-ROSS II at CPL, its Chinese Mainland joint venture and early adoption of RBC at its Hong Kong businesses.

2022 was characterised by high inflation, high interest rates and economic uncertainties, set against reconfigured national alliances and competition for energy and natural resources. The impacts to the Group are multifaceted and may be pronounced. These include increased strategic and business risks, as well as increasing insurance, product and customer conduct risks. For the Group's customers, these wider geopolitical and macroeconomic circumstances may increase uncertainty over livelihoods, elevate costs of living, and cause challenges in affordability for essential needs and services, including insurance products and perhaps at times when they may be most needed. The complexity of meeting regulatory expectations on these issues, as governments increasingly focus on them, is expected to increase. Prudential will need to meet these challenges for its business and those of its customers in a fair and equitable way. At the same time, the Group will be expected to navigate the volatile financial environment in its markets to ensure it remains robustly capitalised to sustainably deliver for the additional needs of its customers and the societies in which it operates. These are the key themes underpinning this report, with details included below.

Against this backdrop, the Group continues to effectively leverage its risk management, compliance and security experience in more mature markets, applying it to its growth markets as appropriate to their respective risks and the extent of their challenges in this changed world, and reflective of opportunities, customer issues and needs and local customs. Prudential will continue to apply the holistic and coordinated approach in managing the increasingly dynamic, multifaceted and often interconnected risks facing its businesses.

Macroeconomic and market environment

The Russia-Ukraine conflict may continue to lead to economic and market stresses being particularly intense in Europe given its dependence on Russian energy and commodities. The uncertainty on the longer-term evolution of these tensions has contributed to keeping energy and commodity prices high and volatile leading to high inflationary pressures. In early 2023, for certain markets which the Group operates, inflation appears to have peaked after having reached decades-high levels in 2022. However, there are structural risks to inflation persistence, constraining real incomes and growth to an extent capable of triggering a global recession.

Central banks, including many in Asia, in large part but at varying pace and levels, have responded to inflationary pressures with monetary policy tightening and base interest rate increases, while factoring in the impact of US Federal Reserve monetary policy on the strength of the US dollar and implications in emerging markets. This challenging inflationary environment led to wide-spread weakness across asset classes in 2022, in both fixed income and equities which posted significant losses. Sentiment was also impacted by weak demand in the property sector, and volatility in the economic outlook in the Chinese Mainland as Covid-19 restrictions continued through most of the year. The Chinese Mainland and Japan were the regional exceptions in retaining a relatively accommodative monetary policy. Global activity data was generally weaker in 2022, but showed some resilience given the record pace of tightening of financial conditions. Consumer confidence in both developed and emerging markets in Asia fell sharply and into depressed territory for much of the year, although actual spending remained at fairly stable levels, given high levels of excess savings, reopening flows and higher-than-expected fiscal stimulus.

With the rapid reopening of the Chinese Mainland market, the headwinds appear to have reached a turning point at the end of the year with policymakers announcing a relaxation of pandemic-related restrictions and the reopening of borders as well as a more convincing package of measures to stabilise the property market. However, the growth path with recovery in consumer spending, especially services, is likely to be volatile based on the experience in other countries, when restrictions were quickly released, the temporary escalation in Covid-19 cases led to an economic pause before a more sustained rebound. Furthermore, supply chains have also taken time to recover to previous levels of efficiency and capacity.

The continued strength in the US dollar against the majority of other currencies further contributed to tighter financial conditions and weaker exchange rates of a number of emerging markets in which the Group operates, adversely impacting Prudential's consolidated financial statements upon the translation of results into US dollar, the Group's reporting currency. With interest rates rising, sub-Saharan Africa has seen an increase in external debt servicing costs. The rising debt servicing burden could lead to a trade-off for governments in the region between paying down debt obligations or funding longer-term social projects.

The macroeconomic landscape and financial markets are expected to remain challenging and highly uncertain. The capital position of the Group and its local businesses has been monitored with high cadence and has remained robust throughout 2022. The full impact of the economic turbulence in 2022 is yet to fully materialise and will continue to be closely monitored by the Group.

Geopolitical landscape

The Russia-Ukraine conflict has led to a range of geopolitical implications, which remain uncertain and complex. The direct implications were regularly monitored throughout 2022 and were considered in the Group's broader scenario analysis and planning. The diplomatic consequences of the conflict have driven an adjustment (and some reinforcement) in regional security and trading blocs, with an increasing conflation of economic issues with considerations of national interest and security, and with implications for international strategic competition. The Russia-Ukraine conflict may have implications for, or result in a short-term slowing of, progress in meeting global and corporate decarbonisation targets, as markets prioritise access to sufficient primary energy sources, increasing the use of coal. In the medium term, a reduction in the reliance on external gas and oil supplies may drive an acceleration in the adoption of zero-carbon energy sources. However, challenges to supply chains, technologies and access to raw materials and energy will remain where national security concerns are heightened. Over the longer term, the conflict, and the diplomatic and economic reactions to it, could contribute to an acceleration towards 'decoupling' or the divergence of markets into more distinct trading blocs, limiting the scope for flows of people, capital and data between blocs, increasing the potential operational and reputational risks for companies continuing to trade and operate between these blocs.

The US-China relationship has been a key focus of geopolitical tension in 2022, impacted in part by the Russia-Ukraine conflict. In turn, this has exerted pressure on policymakers in other geographies, including the Asian markets in which the Group operates. Following the US mid-term Congressional elections and 20th Party Congress of the Communist Party of China in the second half of 2022, political pressures continued to indicate an increasingly divergent set of positions and strained rhetoric on matters of mutual interest, including Taiwan. The relationship remains inherently dynamic and continues to be monitored, against a backdrop of increasing strategic competition as illustrated by the US CHIPS Act and sustained bilateral criticism. While the pace of domestic regulatory reform in the Chinese Mainland abated in 2022 relative to 2021, the effects of reforms and their implementation, including those relating to technology, data usage and capital market operations, may create geopolitical implications which will require assessment, as will US legislation, which may in turn be mirrored or affect other markets' regulations related to China. Legislative or regulatory changes that adversely impact Hong Kong's economy or its international trading and economic relationships, as a key market which hosts Group head office functions, could have an adverse impact on sales and distribution and the operations of the Group.

Societal developments

Global economic uncertainties and the rise in inflation are increasingly putting pressure on household affordability and may exacerbate existing structural inequalities within societies. Government and supervisory attention is being increasingly focused on the cost of living crisis taking shape across many of the Group's markets and the contribution of the corporate sector to government tax revenues. These developments have implications for Prudential in terms of how it engages with its customers, who will, in some markets, experience real challenges in affording or maintaining insurance products at their current level of coverage. This may happen at times when that protection is needed most, and when such customers increasingly represent the vulnerable in society. In Asia, there is an increasing expectation from governments for private companies to help with affordability issues, for example, by introducing moratoria on price increases, and to extend the regulatory definitions of 'vulnerable' customers to explicitly include those in need due to the current economic pressures. Prudential will continue to carefully balance affordability and the impact on its customers with the need, and ability, to reprice products where necessary.

A high inflation environment, combined with recessionary concerns, and societal and regulatory expectations of support, may also heighten existing challenges in persistency for insurers. As has always been the case, Prudential will continue to engage with governments, regulators and supervisors on these issues. As a matter of course, the Group regularly assesses the suitability and affordability of its products, and aims to reduce their perceived complexity whilst increasing the transparency of their costs and benefits. These aims, as well as the Group's increasing focus on the sustainable digital distribution of its health and protection products via its digital platform, help to expand the financial inclusion of Prudential's products and improve customer outcomes.

Most markets have moved, at difference paces, to an endemic approach in managing Covid-19. The Group looks to retain the positive changes that the pandemic accelerated, including those related to changes in traditional working practices and the use of digital services, technologies and distribution methods to customers, while monitoring and mitigating the potential increase in technology, data security or misuse and regulatory risks that these may bring. Prudential is exploring new ways of working and, as a responsible employer, is reflecting thematic trends through a coordinated suite of activities related to the upskilling of its workforce, and increasing flexibility, inclusivity and psychological safety in the workplace. The Group continues to monitor emerging social trends, including those linked to environmental change and the impacts to developing market societies associated with the transition to a lower-carbon global economy. A just and inclusive transition is central to the Group's strategy and Prudential recognises the interests from a wide range of stakeholders in the way it manages ESG and climate-related risks. The Group continues to recognise the importance of financial inclusion and the ways in which the Group's products and services meet the changing needs of affected societies. Its risk management framework continues to evolve to manage the changing nature of these wide-ranging risks, including activities to promote a transparent culture, and active encouragement of open discussion and learnings from mistakes.

Regulations

Prudential operates in highly regulated markets, and as the nature and focus of regulations and laws evolve, the complexity of regulatory compliance (including with respect to economic sanctions, anti-money laundering and anti-corruption) continues to increase and represents a challenge for international businesses. Geopolitical tensions including the Russia-Ukraine conflict have increased uncertainties and the long-term complexity of legal and regulatory compliance for Prudential's businesses operating across multiple jurisdictions. Whilst the complexity of sanctions driven by the geopolitical conflicts is elevated, the Group is experienced in managing this and has in place risk tolerance frameworks to deal with complex and conflicting risk trade-offs to guide executive decisions.

The rapid pace and high volume of regulatory changes and interventions, and swiftness of their application including those driven by the financial services industry, have the potential to increase strategic and regulatory risks for the Group's businesses. There has been an increased regulatory focus by Prudential's Group-wide supervisor, the Hong Kong IA, in particular on customer experience, investment management, governance and sustainability and climate-related topics. In the Chinese Mainland, various policy and regulatory developments relevant to the provision of financial services are in progress, as is the implementation of the market's data governance pillars. Regulatory focus on the financial services industry remains broad and often concurrent, and includes areas such as customer conduct and protection, information security and data privacy and residency, third-party management, systemic risk regulation, corporate governance and senior management accountability. Climate and sustainability-related regulatory developments continue to develop at pace, both globally and in Asia. Developments in domestic and international capital standards continue to move forward, for example, the International Insurance Capital Standard (ICS) is being developed by the International Association of Insurance Supervisors (IAIS) due for adoption post 2024; C-ROSS II and Hong Kong RBC which were implemented in the Group's Chinese Mainland joint venture and Hong Kong businesses respectively. Changes in regulations related to capital have the potential to change the extent of capital sensitivity to risk factors. The new accounting standards IFRS 17 also became effective from 1 January 2023 which is mandatory for the Group given its UK domicile and its dual primary listings. Other examples of material regulatory changes include the sale and management of investment-linked products in Indonesia. Prudential's portfolio of transformation and regulatory change programmes have the potential to introduce new, or increase existing, regulatory risks and supervisory interest while increasing the complexity of ensuring concurrent regulatory compliance across markets driven by potential for increased intra-Group connectivity and dependencies.

The Hong Kong IA's GWS Framework became effective for Prudential following designation by the Hong Kong IA on 14 May 2021. Prudential will continue to engage constructively with the Hong Kong IA as its Group-wide supervisor as it ensures ongoing sustainable compliance. In jurisdictions where Prudential operates with ongoing policy initiatives and regulatory developments which impact the way Prudential is supervised, these developments continue to be monitored by the Group at a market and global level and these considerations form part of the Group Risk Framework and ongoing engagement with government policymakers, industry groups and regulators.

2 Risk governance

a System of governance

Prudential has in place a system of governance that embeds a clear ownership of risk, together with risk policies and standards to enable risks to be identified, measured and assessed, managed and controlled, monitored and reported. The Group Risk Framework, owned by the Board, details Prudential's risk governance, risk management processes and risk appetite. The Group's risk governance arrangements are based on the 'three lines' model. The 'first line' is responsible for taking and managing risk, while the 'second line' provides additional challenge, expertise, oversight and scrutiny. The role of the 'third line', assumed by the independent Group-wide Internal Audit function, is to provide objective assurance on the design, effectiveness and implementation of the overall system of internal control. The Group-wide RCS function reviews, assesses, oversees and reports on the Group's aggregate risk exposure and solvency position from an economic, regulatory and credit ratings perspective.

In 2022, a review of committees across the Group's head office was undertaken to ensure continued appropriateness of the level of Group governance that promotes individual accountability in decision-making and supports the overall corporate governance framework to provide sound and prudent management and oversight of the Group's business. The Group constituted a new Group Investment Committee, chaired by the Group Chief Financial Officer, which was accompanied by the approval of a revised Group Investment Policy, for the oversight of all investment activities and in line with GWS Framework requirements. During 2022, oversight responsibilities for the Group's reporting against the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and the ongoing implementation of the Group's climate-focused commitments, as part of the Group's ESG strategic framework, were transferred from the Board-established Responsible and Sustainability Working Group (RSWG) to the Group Risk Committee with the RSWG retaining its focus on overseeing the culture, customer and digital aspects of the framework. Building on enhancements implemented in 2021, Prudential has continued to embed ESG and climate change considerations within the Group Risk Framework, such as explicitly defining time horizons for the purposes of climate risk and requiring the consideration of risks in the context of the time horizon of expected benefits/paybacks of decisions within core strategic processes where 'risk-based decision-making' must be incorporated, and the embedding of its Group-wide customer conduct risk (including the implementation of enhanced monitoring metrics), third-party and outsourcing and data management frameworks and policies.

b Group Risk Framework

i. Risk governance and culture

Prudential's risk governance comprises the Board organisational structures, reporting relationships, delegation of authority, roles and responsibilities, and risk policies that have been established to make decisions and control activities on risk-related matters. The risk governance structure is led by the Group Risk Committee, supported by independent Non-executive Directors on the risk committees of the Group's major businesses. The Group Risk Committee approves changes to the Group Risk Framework and the core risk policies that support it. The Committee has direct lines of communication, reporting and oversight of the risk committees of the Group's major businesses. In the second half of 2022, the chief risk and compliance officers of the Group's major businesses and the managing directors of the Group's Strategic Business Groups have formally become members of the Group Executive Risk Committee, the advisory committee to the Group Chief Risk and Compliance Officer. The chief risk and compliance officers of the Group's major businesses also attend Group Risk Committee meetings on a rotational participating basis.

Risk culture is a strategic priority of the Board, which recognises its importance in the way that the Group conducts business. A Group-wide culture framework is in place, unifying the Group towards its overarching purpose of helping our customers get the most out of life. The RSWG supports its responsibilities in relation to implementation of the culture framework, as well as embedding the culture aspects of the Group's ESG strategic framework and overseeing progress on diversity and inclusion initiatives. The culture framework provides principles and values that are embedded in the ways of working across the Group's functions and locations and defines how Prudential expects business to be conducted to achieve its strategic objectives, informs expectations of leadership and supports the resilience and sustainability of the Group. The components of the culture framework support sound risk management practices by requiring a focus on customers, longer-term goals and sustainability, the avoidance of excessive risk-taking, and highlighting acceptable and unacceptable behaviours. This is supported through the inclusion of risk and sustainability considerations in performance management for key executives; the building of appropriate skills and capabilities in risk management; and by ensuring that employees understand and care about their role in managing risk through open discussions, collaboration and engagement. The Group Risk Committee has a key role in providing advice to the Remuneration Committee on risk management considerations to be applied in respect of executive remuneration.

Prudential's Group Code of Business Conduct and Group Governance Manual, supported by the Group's risk-related policies, include guiding principles on the day-to-day conduct of all its people and any organisations acting on its behalf. Supporting policies include those related to financial crime, covering anti-money laundering, sanctions, anti-bribery and corruption and conduct. The Group's third-party and outsourcing policy requires that human rights and modern slavery considerations are embedded across all of its supplier and supply chain arrangements. Procedures to allow individuals to speak out safely and anonymously against unethical behaviour and conduct are also in place.

Further details on the Group's ESG governance arrangements and strategic framework are included in the Group's ESG Report.

ii. The risk management cycle

Risk identification

In accordance with provision 28 of the UK Corporate Governance Code and the GWS guidelines issued by the Hong Kong IA, a top-down and bottom-up process is in place to support Group-wide identification of principal risks. An emerging risk identification framework exists to support the Group's preparations in managing financial and non-financial risks expected to crystallise beyond the short-term horizon. The Board performs a robust assessment and analysis of these principal and

emerging risk themes through the risk identification process, the Group Own Risk and Solvency Assessment (ORSA) report and the risk assessments undertaken as part of the business planning review, including how they are managed and mitigated, which supports decision-making.

The Group's emerging risk identification process recognises the dynamic materiality of emerging risk themes. This has been shown by recent events such as the Covid-19 pandemic and the Russia-Ukraine conflict, and this concept is also considered relevant in the context of the Group's monitoring of emerging themes relevant to ESG and climate-related risks, including reputation risk.

The ORSA is the ongoing process of identifying, measuring and assessing, managing and controlling, monitoring and reporting the risks to which the business is exposed. It includes an assessment of capital adequacy to ensure that the Group's solvency needs are met at all times, as well as stress and scenario testing, which includes climate scenarios and reverse stress testing. The latter requires the Group to ascertain the point of business model failure and is another tool that helps to identify the key risks and scenarios that may have a material impact on the Group. The risk profile assessment is a key output from the risk identification and risk measurement processes and is used as a basis for setting Group-wide limits, management information, assessment of solvency needs, and determining appropriate stress and scenario testing. The Group's principal risks, which are reported and managed by the Group with enhanced focus, are reviewed and updated on a regular basis.

Risk measurement and assessment

All identified risks are assessed based on an appropriate methodology for that risk. Quantifiable risks, which are material and mitigated by holding capital, are modelled in the Group's internal model, which is used to determine the Group Internal Economic Capital Assessment (GIECA) and is subject to independent validation and processes and controls around model changes and limitations.

Risk management and control

The Group's control procedures and systems focus on aligning the levels of risk-taking with the Group's strategy and can only provide reasonable, and not absolute, assurance against material misstatement or loss. The Group's risk policies define the Group's appetite to material risks and set out the risk management and control requirements to limit exposure to these risks. These policies also set out the processes to enable the measurement and management of these risks in a consistent and coherent way, including the flows of management information required. The methods and risk management tools employed to mitigate each of the Group's principal risks are detailed in section 3 below.

Risk monitoring and reporting

The Group's principal risks are highlighted in the management information received by the Group Risk Committee and the Board, which also includes key exposures against appetite and developments in the Group's principal and emerging risks.

iii. Risk appetite, limits and triggers

The Group is cognisant of the interests of the broad spectrum of its stakeholders (including customers, investors, employees, communities and key business partners) and that a managed acceptance of risk lies at the heart of its business. The Group seeks to generate stakeholder value by selectively taking exposure to risks, mitigated to the extent it is cost-effective to do so, and where these are an outcome of its chosen business activities and strategy. Those risks for which the Group has no tolerance are actively avoided. The Group's systems, procedures and controls are designed to manage risk appropriately, and its approach to resilience and recovery aims to maintain the Group's ability and flexibility to respond in times of stress.

Qualitative and quantitative expressions of risk appetite are defined and operationalised through risk limits, triggers and indicators. The RCS function reviews the appropriateness of these measures at least annually. The Board approves changes to the Group's aggregate risk appetite and the Group Risk Committee has delegated authority to approve changes to the system of limits, triggers and indicators.

Group risk appetite is defined and monitored in aggregate by the setting of objectives for its capital requirements, liquidity, and non-financial risk exposure, covering risks to stakeholders, including those from participating and third-party businesses. Group limits operate within these expressions of risk appetite to constrain material risks, while triggers and indicators provide additional defined points for escalation. The Group Risk Committee, supported by the RCS function, is responsible for reviewing the risks inherent in the Group's business plan and for providing the Board with a view on the risk/reward trade-offs and the resulting impact to the Group's aggregated position relative to Group risk appetite and limits, including non-financial risk considerations.

- a. **Capital requirements.** Limits on capital requirements aim to ensure that in both business as usual and stressed conditions, the Group maintains adequate capital in excess of internal economic capital requirements, achieves its desired target credit rating to meet its business objectives, and supervisory intervention is avoided. The two measures in use at the Group level are the GWS group capital requirements and internal economic capital requirements, determined by the Group Internal Economic Capital Assessment (GIECA).
- b. **Liquidity.** The objective of the Group's liquidity risk appetite is to ensure that appropriate cash resources are available to meet financial obligations as they fall due in both business as usual and stressed scenarios. This is measured using a liquidity coverage ratio which considers the sources of liquidity against liquidity requirements under stress scenarios.

Non-financial risks. In 2022, the Group implemented the revised Non-Financial Risk Appetite Framework, aiming to adopt an approach framed around the perspectives of its varied stakeholders and taking into account current and

expected changes in the external environment, and rolled out a simplification of the limit and trigger appetite thresholds for non-financial risk categories across the Group's locations. The Group accepts a degree of non-financial risk exposure as an outcome of its chosen business activities and strategy. It aims to manage these risks effectively to maintain its operational resilience and its commitments to customers and all stakeholders and avoid material adverse financial loss or impact to its reputation.

3 The Group's principal risks

The delivery of the Group's strategy in building long-term value for its shareholders and other stakeholders, focusing on high-growth business in Asia and Africa, exposes Prudential to risks. The materialisation of these risks within the Group or in its joint ventures, associates or key third-party partners may have a financial impact and may affect the performance of products or services or the fulfilment of commitments to customers and other stakeholders, with an adverse impact on Prudential's brand and reputation. This report is focused mainly on risks to the shareholder but includes those which arise indirectly through policyholder exposures and third-party business. The Group's principal risks, which are not exhaustive, are detailed below. The Group's risk management cycle (detailed above) includes within its scope the processes for prioritising and determining the relative significance of ESG and climate-related risks, as well as those associated with implementing the Group's externally communicated commitments. The Group's 2022 ESG Report includes further detail on the ESG and climate-related risks which contribute to the materiality of the Group's principal risks detailed below, including those related to the Group's operational and financial resilience, data privacy requirements and expectations, the regulatory landscape and the implementation of the Group's strategy. The Group's Risk Factor disclosures can be found at the end of this document.

Risks to the Group's financial situation (including those from the external macroeconomic and geopolitical environment)

The global economic and geopolitical environment may impact on the Group directly by affecting trends in financial markets and asset values, as well as driving short-term volatility.

Risks in this category include the market risks to our investments and the credit quality of our investment portfolio as well as liquidity risk.

Global economic and geopolitical conditions

With geopolitical tensions high as national alliances and blocs evolve, the jostling of the current world order and the increasing prioritisation of national security widely defined has become a key determinant of macroeconomic policy, with geopolitical and macroeconomic uncertainties being intertwined. Geopolitical developments and tensions, macroeconomic conditions, and broad policy-driven regulatory developments (see below), at times interconnected in the speed and manner in which they evolve, drive the operating environment and risk landscape for the Group and the level of its exposure to the principal risks outlined below.

Macroeconomic and geopolitical developments are considered material to the Group and can potentially increase operational and business disruption, regulatory and financial market risks, and have the potential to directly impact Prudential's sales and distribution networks, as well as its reputation. The potential impacts to the Group are included in the disclosures on Risk Factors.

Market risks to our investments

The value of Prudential's investments is impacted by fluctuations in equity prices, interest rates, credit spreads, foreign exchange rates and property prices. Although inflation remains at decades-level highs, the Group's direct exposure to inflation remains modest. Exposure mainly arises through an increase in medical claims obligations, driven by rising medical import prices. This exposure can be effectively managed by the business' well-established practice and ability to reprice products. Challenges for insurers linked to affordability and existing challenges in persistency are detailed in the Insurance Risks section below.

The Group has appetite for market risk where it arises from profit-generating insurance activities to the extent that it remains part of a balanced portfolio of sources of income for shareholders and is compatible with a robust solvency position. The Group's market risks are managed and mitigated by the following:

- The Group market risk policy;
 - Risk appetite statements, limits and triggers;
 - The Group's capital and asset liability management committees;
 - Asset and liability management activities, which include management actions such as changes in asset allocation, bonus revisions, repricing and the use of reinsurance where appropriate;
 - The Group Investment Committee and Group Investment Policy;
 - Hedging using derivatives, including currency forwards, interest rate futures and swaps, and equity futures;
 - The monitoring and oversight of market risks through the regular reporting of management information;
 - Regular deep dive assessments; and
 - The Group Critical Incident Procedure (GCIP), which defines specific governance to be invoked in the event of a critical incident, such as a significant market, liquidity or credit-related event. This includes, where necessary, the convening of a Critical Incident Group (CIG) to oversee, coordinate, and where appropriate, direct activities during a critical incident.
- **Interest rate risk, including asset liability management (ALM).** Interest rate risk is driven by the impact of the valuation of Prudential's assets (particularly government and corporate bonds) and liabilities, which are dependent on market interest rates. Prudential's appetite for interest rate risk requires that assets and liabilities should be tightly matched for exposures where assets or derivatives exist that can cover these exposures. Interest rate risk is accepted where this cannot be hedged, provided that this arises from profitable products and to the extent that such interest rate risk exposure remains part of a balanced exposure to risks and is compatible with a robust solvency position.

Sustained inflationary pressures have driven interest rates higher, these have the potential to increase further in the near-to-medium term, and may impact the valuation of fixed income investments and reduce fee income. The Group's risk exposure to rising interest rates also arises from the potential impact to the present value of future fees for unit-linked based businesses, such as in Indonesia and Malaysia, as well as the impact to the present value of the future profits for accident and health products, such as in Hong Kong. Exposure to higher interest rates also arises from the potential impact to the value of fixed income assets in the shareholder funds.

The Group's risk exposure to lower/decreased interest rates arises from the guarantees of some non-unit-linked products with a savings component, including the Hong Kong and Singapore with-profits and non-profit businesses. This exposure

results from the potential for an asset and liability mismatch, where long-dated liabilities and guarantees are backed by short-dated assets. When this duration mismatch is not eliminated, it is monitored and managed through local risk and asset liability management committees and Group risk limits consistent with the Group's appetite for interest rate risk.

The Group-level Capital and ALM Committee is a management committee supporting the identification, assessment and management of key financial risks to the achievement of the Group's business objectives. The Committee also oversees ALM, solvency and liquidity risks of the local businesses as well as the declaration and management of non-guaranteed benefits for participating and universal life lines of business. Local business units are responsible for the management of their own asset and liability positions, with appropriate governance in place.

The objective of the local business unit ALM process is to meet policyholder liabilities with the returns generated from the investment assets held, while maintaining the financial strength of capital and solvency positions. The ALM strategy adopted by the local business units considers the liability profile and related assumptions of in-force business and new products to appropriately manage investment risk within ALM risk appetite, under different scenarios in accordance with policyholders' reasonable expectations, and economic and local regulatory requirements. Factors such as the availability of matching assets, diversification, currency and duration are considered as appropriate. The assumptions and methodology used in the measurement of assets and liabilities for ALM purposes conform with local solvency regulations. Assessments are carried out on an economic basis which conforms to the Group's internal economic capital methodology.

- **Equity and property investment risk.** The shareholder exposure to equity price movements arises from various sources, including from unit-linked products where fee income is linked to the market value of funds under management. Exposure also arises from with-profits businesses through potential fluctuations in the value of future shareholders' profits and where bonuses declared are based broadly on historical and current rates of return from the business's investment portfolios, which include equities. The Group has limited acceptance for exposures to equity risk, but accepts the equity exposure that arises on future fees (including shareholder transfers from the with-profits business).

The material exposures to equity risk in the Group's businesses include CPL's exposure to equity risk through investments in equity assets for most of its products, including participating and non-participating savings products and protection and investment-linked products. The Hong Kong business and, to a lesser extent, the Singapore business contribute to the Group's equity risk exposure due to the equity assets backing participating products. The Indonesia and Malaysia businesses are exposed to equity risk through their unit-linked products, and in the case of Malaysia exposure also arises from participating and investment-linked business.

- **Foreign exchange risk.** The geographical diversity of Prudential's businesses means that it has some exposure to the risk of foreign exchange rate fluctuations. Some entities within the Group write policies, invest in assets or enter into other transactions in local currencies or currencies not linked to the Group's reporting/functional currency, the US dollar. Although this limits the effect of exchange rate movements on local operating results, it can lead to fluctuations in the Group's US dollar-reported financial statements. This risk is accepted within the Group's appetite for foreign exchange risk. In cases where a non-US dollar denominated surplus arises in an operation which is to be used to support Group capital or shareholders' interest (i.e. remittances), this currency exposure may be hedged where considered economically favourable. Further, the Group generally does not have appetite for significant direct shareholder exposure to foreign exchange risks in currencies outside the markets in which it operates, but it does have some appetite for this on fee income and on equity investments within the with-profits funds. Where foreign exchange risk arises outside appetite, currency swaps and other derivatives are used to manage the exposure.

Liquidity risk

Prudential's liquidity risk arises from the need to have sufficient liquid assets to meet policyholder and third-party payments as they fall due, considered under both business-as-usual and stressed conditions. It includes the risk arising from funds composed of illiquid assets and results from a mismatch between the liquidity profile of assets and liabilities. Liquidity risk may impact on market conditions and valuation of assets in a more uncertain way than for other risks like interest rate or credit risk. It may arise, for example, where external capital is unavailable at sustainable cost, where derivatives transactions require a sudden significant need of liquid assets or cash to post as collateral to meet derivatives margin requirements, or where redemption requests are made against funds managed for external clients (both retail and institutional). Liquidity risk is considered material at the level of the Group. Prudential has no appetite for any business to have insufficient resources to cover its outgoing cash flows, or for the Group as a whole to not meet cash flow requirements from its debt obligations under any plausible scenario. The Group has significant internal sources of liquidity sufficient to meet its expected cash requirements for at least 12 months from the date the financial statements are approved, without having to resort to external sources of funding. The Group has a total of \$2.6 billion of undrawn committed facilities that can be made use of, expiring in 2026. Access to further liquidity is available through the debt capital markets and the Group's extensive commercial paper programme. Prudential has maintained a consistent presence as an issuer in the market for the past decade.

A number of risk management tools are used to manage and mitigate liquidity risk, including the following:

- The Group's liquidity risk policy;
- Risk appetite statements, limits and triggers;
- Regular assessment and reporting by the Group and business units of Liquidity Coverage Ratios which are calculated under both base case and stressed scenarios;
- The Group's Liquidity Risk Management Plan, which includes details of the Group Liquidity Risk Framework as well as analysis of Group and business units liquidity risks and the adequacy of available liquidity resources under business-as-usual and stressed conditions;
- The Group's Collateral Management Framework, which sets out the approach to ensuring business units using derivatives have sufficient liquid assets or ability to raise liquidity to meet derivatives margins;
- The Group's contingency plans and identified sources of liquidity;
- The Group's ability to access the money and debt capital markets; and

- The Group's access to external committed credit facilities.

Credit risk

Credit risk is the potential for loss resulting from a borrower's failure to meet its contractual debt obligation(s). Counterparty risk, a type of credit risk, is the probability that a counterparty to a transaction defaults on its contractual obligation(s) causing the other counterparty to suffer a loss. These risks arise from the Group's investments in bonds, reinsurance arrangements, derivative contracts with third parties, and its cash deposits with banks. Credit spread risk, another type of credit risk, arises when the interest rate/return on a loan or bond is disproportionately low compared with another investment with a lower risk of default. Invested credit and counterparty risks are considered a material risk for the Group's business units.

The Group's holdings across its life portfolios are mostly in local currency and with a largely domestic investor base, which provides support to these positions. These portfolios are generally positioned towards high-quality names, including those with either government or considerable parent company balance sheet support. Areas which the Group is actively monitoring include the developments in the Chinese Mainland property development sector and the impacts of rising inflation and the tightening of monetary policy in the Group's key markets, as well as high indebtedness in sub-Saharan African countries. The impacts of these trends, which are being closely monitored, include potential for deterioration in the credit quality of the Group's invested credit exposures, particularly due to rising funding costs and overall credit risks, and the extent of downward pressure on the fair value of the Group's portfolios. The Group's portfolio is generally well diversified in relation to individual counterparties, although counterparty concentration is monitored in particular in local markets where depth (and therefore the liquidity of such investments) may be low. Prudential actively reviews its investment portfolio to improve the robustness and resilience of the solvency position. The Group has appetite to take credit risk to the extent that it remains part of a balanced portfolio of sources of income for shareholders and is compatible with a robust solvency position. Further detail on the Group's debt portfolio is provided below.

A number of risk management tools are used to manage and mitigate credit and counterparty credit risk, including the following:

- A credit risk policy and dealing and controls policy;
- Risk appetite statements and portfolio-level limits that have been defined on issuers, and counterparties;
- Collateral arrangements for derivative, secured lending reverse repurchase and reinsurance transactions which aim to provide a high level of credit protection;
- The Group Executive Risk Committee and Group Investment Committee's oversight of credit and counterparty credit risk and sector and/or name-specific reviews;
- Regular assessments, including of individual and sector exposures subject to elevated credit risks; and
- Close monitoring or restrictions on investments that may be of concern.

The total debt securities at 31 December 2022 for the Group's continuing operations were \$77.0 billion (31 December 2021: \$99.1 billion). The majority (70 per cent) of the portfolio is in unit-linked and with-profits funds. The remaining 30 per cent of the debt portfolio is held to back the shareholder business.

- **Group sovereign debt.** Prudential invests in bonds issued by national governments. This sovereign debt holding of the Group's operations represented 46 per cent or \$10.5 billion¹ of the shareholder debt portfolio of the Group's operations as at 31 December 2022 (31 December 2021: 47 per cent or \$14.2 billion of the shareholder debt portfolio for the Group's continuing operations). The particular risks associated with holding sovereign debt are detailed further in the disclosures on Risk Factors.

The exposures held by the shareholder-backed business and with-profits funds in sovereign debt securities at 31 December 2022 are given in note C1 of the Group's IFRS financial statements.

- **Corporate debt portfolio.** In the shareholder-backed business, corporate debt exposures totalled \$11.5 billion of which \$10.2 billion or 89 per cent were investment grade rated.
- **Bank debt exposure and counterparty credit risk.** The banking sector represents a material concentration in the Group's corporate debt portfolio which largely reflects the composition of the fixed income markets across the regions in which Prudential is invested. As such, exposure to banks is a key part of its core investments, as well as being important for the hedging and other activities undertaken to manage its various financial risks. Exposure to the sector is considered a material risk for the Group. Derivative and reinsurance counterparty credit risk exposure is managed using an array of risk management tools, including a comprehensive system of limits. Prudential manages the level of its counterparty credit risk by reducing its exposure, buying credit protection or using additional collateral arrangements where appropriate.

At 31 December 2022:

- 89 per cent of the Group's shareholder portfolio (excluding all government and government-related debt) is investment grade rated². In particular, 55 per cent of the portfolio is rated² A- and above (or equivalent); and
- The Group's shareholder portfolio is well diversified: no individual sector³ makes up more than 13 per cent of the total portfolio (excluding the financial and sovereign sectors).

The Group's sustainability and ESG-related risks

These include sustainability risks associated with environmental considerations such as climate change (including physical and transition risks), social risks arising from diverse stakeholder commitments and expectations and governance-related risks.

Material risks associated with key ESG themes may undermine the sustainability of a business by adversely impacting its reputation and brand, ability to attract and retain customers, employees and distribution and other business partners, and increasing litigation risks, and therefore the results of its operations and delivery of its strategy and long-term financial success. Prudential seeks to manage sustainability risks and their potential impact on its business and stakeholders through a focus on the

Group's purpose to 'help people get the most out of life', and transparent and consistent implementation of its strategy in its markets and across operational, underwriting and investment activities. The Group's strategy includes a focus on supporting a just and inclusive transition to a lower-carbon global economy that places the societies of developing markets at the forefront of considerations, as well as providing greater and more inclusive access to good health and financial security that meets the changing needs of societies, promotes responsible stewardship in managing the human impact of climate change and building human and social capital with its broad range of stakeholders. It is enabled by strong internal governance, sound business practices and a responsible investment approach, with ESG considerations integrated into investment processes and decisions and the performance of fiduciary and stewardship duties, including voting and active engagement decisions with respect to investee companies, as both an asset owner and an asset manager. With the update to the Board committee oversight responsibilities noted in section 1 above, climate risk, the Group's reporting against the recommendations of the TCFD and progress on the Group's external climate-related commitments will be a priority focus for the Group Risk Committee for 2023.

Regulatory interest and developments continue to increase globally and in Asia, and ESG and sustainability-related risks are high on the agenda of both local regulators and international supervisory bodies such as the International Association of Insurance Supervisors (IAIS) and the International Sustainability Standards Board (ISSB), which is progressing on ESG and sustainability-related disclosure requirements. The Group continues to actively engage with, and respond to, discussions, consultations and supervisory information-gathering exercises. Details of the Group's sustainability and ESG-related risks are included in the disclosure on Risk Factors.

As local regulatory requirements on climate risk management and disclosures develop, the Group continues to leverage and share its Group-wide experience and knowledge with its local businesses on their ESG policies and approaches, both to provide support and to help drive consistency in their continuing embedment across Prudential's businesses. The Group Risk Framework continues to be critically evaluated and updated where required to ensure both ESG and sustainability-related considerations and risks to the Group, and the external impact from the Group's activities, are appropriately captured.

Risk management and mitigation of ESG sustainability risks at Prudential include the following:

- A focus on enhancing access to good health and financial security, and in connection with our stakeholders, ensuring responsible stewardship of climate and ESG related issues; clear governance arrangements, both in the definition of the roles and responsibilities of the Board and management committees for aspects of ESG and sustainability risks and through the Group Governance Manual, which include ESG and responsible business practice-linked policies, and the Group Code of Business Conduct;
- The continued embedding of ESG and sustainability risk within the Group Risk Framework and risk processes, including:
 - o Consideration of the potential for dynamically-changing materiality in emerging environmental, social and governance themes and risks through emerging risk identification and evaluation processes;
 - o Definition of appropriate (and longer) time horizons with respect to climate risk management and the requirement to consider time horizons where required in risk-based decision-making;
 - o Reflection in the risk taxonomy that the Group can be both impacted by ESG/sustainability issues as well as having an impact on these in the external world ('double materiality');
 - o The applicability of the Group's Model Risk and UDA Risk Policy to the tools used for the aggregation of the Group's carbon intensity metrics across its investment portfolios; and
 - o Deep dives into ESG themes, including climate-related risks, and Board-level training sessions.
- Integrating ESG considerations into investment processes and responsible supply chain management; and
- Participation in networks and industry forums and working groups such as the Net Zero Asset Owner Alliance (NZAOA), Principles for Responsible Investment (PRI) and CRO Forum to further develop understanding and support collaborative action in relation to ESG sustainability risks such as climate change and promoting a just and inclusive transition.

Further information on the Group's ESG governance and ESG strategic framework, as well as the management of material ESG themes, are included in the Group's ESG Report.

Risks from the nature of our business and our industry

These include the Group's non-financial risks (including operational and transformation risks from significant change activity), the customer conduct risks and insurance risks assumed by the Group in providing its products, and risks related to regulatory compliance.

Non-financial risks

The complexity of Prudential, its activities and the extent of transformation in progress creates a challenging operating environment and exposure to a variety of non-financial risks. These risks are considered to be material at a Group level.

- **Operational risk.** This is the risk of loss (or unintended gain or profit) arising from inadequate or failed internal processes, personnel or systems and external events, and may arise from employee error, model error, system failures, fraud or other events which disrupt business processes or which have a detrimental impact to customers. Prudential accepts a degree of non-financial risk exposure as an outcome of its chosen business activities and strategy. It aims to manage these risks effectively to maintain its operational resilience and its commitments to customers and all stakeholders and avoid material adverse financial loss or impact on its reputation.
- **Transformation risk.** Transformation risk remains a material risk for Prudential, with a number of significant change programmes under way which, if not delivered and executed effectively to defined timelines, scope and cost, may negatively impact its operational capability, control environment, reputation, and ability to deliver its strategy and maintain market competitiveness. Prudential's current portfolio of transformation and significant change programmes include (i) the implementation of large scale regulatory changes; (ii) the expansion of the Group's digital capabilities and use of technology, platforms and analytics; and (iii) improvement of business efficiencies through operating model changes, including those relating to the Group's central, asset management and investment oversight functions. Programmes related to

regulatory/industry change, such as those required to effect the discontinuation of inter-bank offered rates (IBORs) in their current form and the implementation of IFRS 17, are also ongoing. Further detail on the risks to the Group associated with large-scale transformation and complex strategic initiatives is included in the disclosures on Risk Factors.

The Group therefore aims to ensure that, for both transformation and strategic initiatives, strong programme governance is in place with embedded risk expertise to achieve ongoing and nimble risk oversight, with regular risk monitoring and reporting to risk committees. Transformation risk oversight operates alongside the Group's existing risk policies and frameworks to ensure appropriate governance and controls are in place to mitigate these risks.

- **Outsourcing and third-party risks.** The Group's outsourcing and third-party relationships require distinct oversight and risk management processes. The Group has a number of important third-party relationships, both with market counterparties and outsourcing partners, including distribution, technology and ecosystem providers. In Asia, the Group maintains material strategic partnerships and bancassurance arrangements. These arrangements support the delivery of high level and cost-effective services to customers, but also create a reliance on the operational resilience and performance of outsourcing and business partners. The Group's requirements for the management of material outsourcing arrangements have been incorporated in its Group third-party supply and outsourcing policy, aligned to the requirements of the Hong Kong IA's GWS Framework, and which outlines the governance in place in respect of material outsourcing and third-party arrangements and the Group's monitoring and risk assessment framework. This ensures that appropriate contract performance and risk mitigation measures are in place over these arrangements. Third-party management is also included and embedded in the Group-wide operational risk framework (see below).
- **Information security and data privacy risk.** Risks related to malicious attacks on Prudential systems, service disruption, exfiltration of data, loss of data integrity and the impact on the privacy of our customer data continue to be prevalent, particularly as the accessibility of attacking tools available to potential adversaries increases. The frequency and sophistication of attacks, particularly in relation to ransomware, continues to grow globally. With a rapidly transforming technological landscape, continued expansion of Cloud services, including the adoption of a hybrid multi-cloud strategy partnering with third-party service providers, and the increased scrutiny from regulators against a backdrop of tightening data privacy regulations across Asia, security and privacy risks are material at the Group level. To mitigate the risk, the Group has adopted a holistic risk management approach, not only to prevent and disrupt potential attacks against Prudential systems but to also manage the recovery process should an attack take place successfully. It is also well understood that some attacks will still be successful despite the layered security control defence-in-depth methodology that Prudential and other mature organisations assume, and so it is essential that the Group's security strategy encompasses a cyber resilience theme focusing on its ability to respond and recover from an attack in order to maintain its reputation and customer trust.

Globally, ransomware and distributed denial of services (DDoS) attacks have increased markedly in 2022, in part driven by the Russia-Ukraine conflict. The Group has responded swiftly by leveraging threat intelligence information to configure security systems to mitigate any potential attacks, whether targeted or collateral, from these events. Prudential also has a number of defences in place to protect its systems from these types of attacks, including but not limited to: (i) DDoS protection for the Group's websites via web application firewall services; (ii) AI-based endpoint security software; (iii) continuous security monitoring; (iv) network-based intrusion detection; and (v) employee training and awareness campaigns to raise understanding of attacks utilising email phishing techniques. Cyber insurance coverage is in place to provide some protection against potential financial losses and the Group conducts simulation exercises for ransomware attacks to assess and develop the effectiveness of incident responses across its businesses. Cyber-attack simulation exercises have been carried out during the year to enhance preparedness.

The Group has not, to date, experienced or been affected by any cyber or data breaches which have had a material impact on its operations. However, as the Group continues to develop and expand digital services and emerging products, its reliance on third-party service providers and business partners who specialise in niche capabilities is also increasing. A number of supply chain attacks took place in 2022 with notable breaches of service disruption and infringements to data security, integrity or privacy on Prudential's service providers, which as a result directly impacted the Group's ability to service customers, maintain its reputation and comply with regulation and privacy requirements. As part of the remedial actions, the Group has continued to enhance its third-party management process including the enhanced security due diligence process when onboarding new business partners and the ongoing monitoring of key business partners.

The key material risks can be summarised into three threat areas: (i) ransomware attacks, (ii) supply chain compromise and (iii) service disruption caused by cyber threats. In order for the Group to manage these risks effectively, the security strategy encompasses the ongoing maturity and development of protective and detective controls, while further expanding and uplifting its ability to react to and recover from successful attacks on both the Group's system as well as third-party partner systems.

The Group's Information Security and Privacy strategy is structured with three key pillars:

- *Defending the nation* – To expand coverage and maturity of protective and detective security controls in response to both the changing technology landscape, such as the adoption of new Cloud services, as well as the heightened threat actor risks. Within this pillar, continued focus on Africa business units remains in order to ensure the same maturity level as Asia-based business units is achieved.
- *Cyber resilience* – To build on a number of existing security processes and formalise the development of an integrated cross-functional incident management framework that is regularly tried and tested. This includes further aligning Group incident management plans, business unit incident management plans and cyber security incident management plans along with executing a number of drills and tabletop exercises. The drills and exercises will be conducted at all levels including executive committee members and within the business units while bringing in critical key business partners such as cyber insurance providers and forensic investigation partners.

- *Enabling the digital journey* – To focus on introducing and building out key security controls within the digital ecosystem to ensure continued enablement of the organisation’s digital strategy while improving customer experience and data security within the digital ecosystem.

The centralised Technology Risk Management team leverages skills, tools and resources across different technology domains to provide advisory, assurance and operations support for holistic technology risk management including information security and privacy. The Group Technology Risk Committee provides Group-wide oversight of technology risks, including information security and privacy. Technology risk management is also performed locally within business units, with inputs from business information security officers and with oversight from local risk committees. The Board is briefed at least twice annually on cyber security and privacy by the Group Chief Information Security Officer (CISO) and is being engaged more closely on cyber resilience with executive-level cyber tabletop exercises and risk workshops conducted in 2022 and continuing in 2023 to ensure that members have the means to enable appropriate oversight and understand the latest threats and regulatory expectations. The Group Information Security, Privacy and Data policies were developed to ensure compliance with all applicable laws and regulations, and the ethical use of customer data. In addition, these policies consider the requirements of a range of supervisory guidelines including the international standards on information security (ISO 27001/27002) and the US National Institute of Standards and Technology’s Cyber Security Framework. Localised regulations or legal requirements are addressed by local policies or standards.

- **Model and user developed application (UDA) risk.** Erroneous or misinterpreted tools used in core business activities, decision-making and reporting may have adverse consequences for Prudential. The Group utilises various tools to perform a range of operational functions including the calculation of regulatory or internal capital requirements, the valuation of assets and liabilities, determining hedging requirements, and acquiring new business via digital platforms. Many of these tools are an integral part of the information and decision-making frameworks used at Prudential and errors or limitations in these tools, or inappropriate usage, may lead to regulatory breaches, inappropriate decision-making, financial loss, customer detriment, inaccurate external reporting or reputational damage.

The Group has no appetite for model and UDA risk arising from failures to develop, implement and monitor appropriate risk mitigation measures. Prudential’s model and UDA risk framework and policy applies a risk-based approach from the point of view of a broad range of stakeholders, including policyholders, in order to ensure appropriate and proportionate risk management is applied to all models and UDAs used across the business (including those under development).

Prudential’s model and UDA risk is managed and mitigated using the following:

- The Group’s Model and UDA Risk Policy and relevant guidelines;
- Annual risk assessment (including model limitations, known errors and approximations) of all tools used for core business activities, decision-making and reporting;
- Maintenance of appropriate documentation for tools used;
- Implementation of controls to ensure tools are accurate and appropriately used;
- Tools are subject to rigorous and independent model validation; and
- Regular reporting to the RCS function and relevant risk and Board committees to support the measurement and management of the risk.

Technological developments, in particular in the field of artificial intelligence (AI), pose new questions on risk oversight provided under the Group Risk Framework. An oversight forum for the use of AI and key ethical principles apply to the use of AI by the Group.

- **Business disruption and operational resilience risk.** The Group continually seeks to increase business resilience through adaptation, planning, preparation and testing of contingency plans and its ability to respond effectively to and operate through disruptive incidents. Business resilience is at the core of the Group’s embedded Business Continuity Management (BCM) programme and framework that help to protect the Group’s systems and its key stakeholders. The BCM programme and framework covers business impact analyses, risk assessments, and the maintenance and exercising of business continuity, incident management and disaster recovery plans. Business disruption risks are monitored by the Group Security function, with key operational effectiveness metrics and updates on specific activities reported to the Group Risk Committee.
- **Financial crime risk.** As with all financial services firms, Prudential is exposed to risks relating to money laundering (the risk that the products or services of the Group are used by customers or other third parties to transfer or conceal the proceeds of crime); fraud (the risk that fraudulent insurance claims, transactions, or procurement of services, are made against or through the business); sanctions compliance breaches (the risk that the Group undertakes business with individuals and entities on the lists of the main sanctions regimes); and bribery and corruption (the risk that employees or associated persons seek to influence the behaviour of others to obtain an unfair advantage or receive benefits from others for the same purpose).

Prudential operates in some high-risk markets where, for example, the acceptance of cash premiums from customers may be common practice, large-scale agency networks may be in operation where sales are incentivised by commission and fees, and concentration of exposure to politically-exposed persons may give rise to higher geopolitical risk exposure.

The Group-wide policies in place on anti-money laundering, fraud, sanctions and anti-bribery and corruption risks reflect the values, behaviours and standards that are expected across the business. Screening and transaction monitoring systems are in place with ongoing improvements and upgrades being implemented where required, and a programme of compliance control monitoring reviews is in place across the Group. The Group has continued to strengthen and enhance its financial crime risk management capability through investment in advanced analytics and AI tools. Proactive detective capabilities are being implemented across the Group and delivered through a centralised monitoring hub, to further strengthen oversight of financial crime risks in the areas of procurement and third-party management. Risk assessments are performed annually at higher-risk locations. Due diligence reviews and assessments against Prudential’s financial crime policies are performed as part of the

Group's business acquisition process. The Group continues to undertake strategic activity to monitor and evaluate the evolving fraud risk landscape, mitigate the likelihood of fraud occurring and increase the rate of detection.

The Group has in place a mature confidential reporting system through which employees and other stakeholders can report concerns relating to potential misconduct. The process and results of this system are overseen by the Group Audit Committee.

Group-wide framework and risk management for non-financial risks

The risks outlined above form key elements of the Group's non-financial risk profile. A Group-wide operational risk framework is in place to identify, measure and assess, manage and control, monitor and report effectively on all material operational risks across the business. Outputs from these processes and activities performed by individual business units are monitored by the RCS function, which provides an aggregated view of the risk profile across the business to the Group Risk Committee and the Board.

The key components of the framework are listed below:

- Application of a risk and control self-assessment (RCSA) process, where risk exposures are identified and assessed as part of a periodical cycle;
- An internal incident management process, which identifies, quantifies and monitors remediation conducted through root cause analysis and application of action plans for risk events;
- An annual scenario analysis process for the quantification of extreme, yet plausible manifestations of key operational risks across the business on a forward-looking basis; and
- A risk appetite framework for non-financial risks that articulates the level of risk exposure the business is willing to tolerate and defines escalation processes for breaches of appetite.

These core framework components are embedded across Prudential via the Group Operational Risk Policy and accompanying standards, which set out the key principles and minimum standards for the management of operational risk within the Group's risk appetite. These sit alongside other risk policies and standards that individually engage with specific operational risks, including outsourcing and third-party supply, business continuity, financial crime, technology and data, operations processes and extent of transformation. These policies and standards include subject matter expert-led processes that are designed to identify, assess, manage and control operational risks, detailed below. These activities are fundamental in maintaining an effective system of internal control, and ensure that operational risk considerations are embedded in key business decision-making, including material business approvals and in setting and challenging the Group's strategy. These activities include:

- Reviews of key operational risks and challenges within Group and business unit business plans during the annual planning cycle, to support business decisions;
- Corporate insurance programmes to limit the financial impact of operational risks;
- Oversight of risk management during the transformation life cycle, project prioritisation and the risks, interdependencies and possible conflicts arising from a large portfolio of transformation activities;
- Screening and transaction monitoring systems for financial crime and a programme of compliance control monitoring reviews and regular risk assessments;
- Internal and external review of cyber security capability and defences; and
- Regular updating and risk-based testing of disaster recovery plans and the Critical Incident Procedure process.

Risks associated with the Group's joint ventures and associates

Prudential operates, and in certain markets is required by local regulation to operate, through joint ventures and other joint ownership or third-party arrangements (including associates). A material proportion of the Group's business comes from its joint venture and associate in the Chinese Mainland and India respectively. For such operations, the level of control exercisable by the Group depends on the terms of the contractual agreements between participants. As such, the level of oversight, control and access to management information the Group is able to exercise over the extent of the exposure to material risks at these operations may be lower compared with the Group's wholly owned businesses. Further information on the risks to the Group associated with its joint ventures and other shareholders and third parties are included in the disclosures on Risk Factors.

Insurance risks

Insurance risks make up a significant proportion of Prudential's overall risk exposure. The profitability of the Group's businesses depends on a mix of factors, including levels of, and trends in, mortality (policyholders dying), morbidity (policyholders becoming ill or suffering an accident) and policyholder behaviour (variability in how customers interact with their policies, including utilisation of withdrawals, take-up of options and guarantees and persistency, ie lapsing/surrendering of policies), and increases in the costs of claims over time (claim inflation). The risks associated with adverse experience relative to assumptions associated with product performance and customer behaviour are detailed in the disclosures on Risk Factors. The Group has appetite for retaining insurance risks in the areas where it believes it has expertise and operational controls to manage the risk and where it judges it to be more value creating to do so rather than transferring the risk, and only to the extent that these risks remain part of a balanced portfolio of sources of income for shareholders and are compatible with a robust solvency position.

Whilst most markets have moved, at difference paces, to an endemic approach in managing Covid-19, the impact of policyholders having deferred medical treatment during the pandemic (latent morbidity impacts) continues to be experienced in a number of markets. The implications from other factors such as long-term post-Covid-19 symptoms (although there is currently no consensus on the longer-term impact on morbidity) is being monitored. Inflationary pressures driving higher interest rates may lead to increased lapses for some guaranteed savings products where higher levels of guarantees are offered by products of the Group's competitors, reflecting consumer demand for returns at the level of, or exceeding, inflation. A high inflation environment, and the broader economic effects of recessionary concerns, may also increase lapses, surrenders and fraud, as well as heighten premium affordability challenges.

The principal drivers of the Group's insurance risk vary across its business units. In Hong Kong, Singapore, Indonesia and Malaysia, a significant volume of health and protection business is written and the most significant insurance risks are persistency risk, morbidity risk, and medical claims inflation risk.

- **Medical claims inflation risk:** A key assumption in these markets is the rate of medical claims inflation, which is often in excess of general price inflation. Where the cost of medical treatment increases more than expected, resulting in higher than anticipated medical claims cost passed on to Prudential, is a key risk. This risk is best mitigated by retaining the right to reprice products and appropriate overall claims limits within policies, either per type of medical treatment or in total across a policy, annually and/or over the policy lifetime. Medical reimbursement downgrade experience (where the policyholder reduces the level of the coverage/protection in order to reduce premium payments) following any repricing is also a factor to be monitored by the Group's businesses. The risks to the Group's ability to reprice are included in the disclosures on Risk Factors.
- **Morbidity risk:** Prudential's morbidity risk is managed through prudent product design, underwriting and claims management, and for certain products, the right to reprice where appropriate. Prudential's morbidity assumptions reflect its recent experience and expectation of future trends for each relevant line of business.
- **Persistency risk:** The Group's persistency assumptions reflect recent experience and expert judgement, especially where a lack of experience data exists, as well as any expected change in future persistency. Persistency risk is managed by appropriate controls across the product life cycle. This includes review and revisions to product design and incentive structures where required, ensuring appropriate training and sales processes, including those ensuring active customer engagement and high service quality, appropriate customer disclosures and product collaterals, use of customer retention initiatives and post-sale management through regular experience monitoring. Strong risk management and mitigation of conduct risk and the identification of common characteristics of business with high lapse rates is also crucial. Where appropriate, allowance is made for the relationship (either assumed or observed historically) between persistency and investment returns. Modelling this dynamic policyholder behaviour is particularly important when assessing the likely take-up rate of options embedded within certain products.

Prudential's insurance risks are managed and mitigated using the following:

- The Group's insurance policy, which sets out the Group's insurance risk appetite and required standards for effective insurance risk management by head office and local businesses, including processes to enable the measurement of the Group's insurance risk profile, management information flows and escalation mechanisms;
- The Group's product and underwriting risk policy, which sets out the required standards for effective product and underwriting risk management and approvals for new, or changes to existing, products (including the role of the Group), and the processes to enable the measurement of underwriting risk. The policy also describes how the Group's Customer Conduct Risk Policy is met in relation to new product approvals and current and legacy products;
- The Group's counter fraud policy, which sets out the required standards to enhance fraud detection, prevention and investigation activities. The policy also sets out the framework to tackle fraud that safeguards customers, protects local businesses and the Group's reputation and provides assurance that fraud risk is managed within appetite, and to protect resources to support sustainable business growth;
- In product design and appropriate processes related to the management of policyholders' reasonable expectations;
- The risk appetite statements, limits and triggers;
- Using persistency, morbidity and longevity assumptions that reflect recent experience and expectation of future trends, and the use of industry data and expert judgement where appropriate;
- Using reinsurance to mitigate mortality and morbidity risks;
- Ensuring appropriate medical underwriting when policies are issued and appropriate claims management practices when claims are received in order to mitigate morbidity risk;
- Maintaining the quality of sales processes, training and using initiatives to increase customer retention in order to mitigate persistency risk;
- The use of mystery shopping to identify opportunities for improvement in sales processes and training;
- Using product repricing and other claims management initiatives in order to mitigate morbidity and medical expense inflation risk; and
- Regular deep dive assessments.

Customer conduct risk

Prudential's conduct of business, especially in the design and distribution of its products and the servicing of customers, is crucial in ensuring that the Group's commitment to meeting its customers' needs and expectations are met. The Group's customer conduct risk framework, owned by the Chief Executive Officer, reflects management's focus on customer outcomes.

Factors that may increase conduct risks can be found throughout the product life cycle, from the complexity of the Group's products and services to its diverse distribution channels, which include its agency workforce, virtual face-to-face sales and sales via online digital platforms. Prudential has developed a Group Customer Conduct Risk Policy which sets out five customer conduct standards that the business is expected to meet, being:

- 1 Treat customers fairly, honestly and with integrity;
- 2 Provide and promote products and services that meet customer needs, are clearly explained and that deliver real value;
- 3 Manage customer information appropriately, and maintain the confidentiality of customer information;
- 4 Provide and promote high standards of customer service; and
- 5 Act fairly and timely to address customer complaints and any errors found.

Prudential manages conduct risk via a range of controls that are assessed through the Group's conduct risk assessment framework, reviewed within its monitoring programmes, and overseen within reporting to its boards and committees.

As the pandemic-related initiatives and campaigns rolled out across markets to support customers expire (including customer cash benefits, goodwill payments, and extended grace periods for premium payments), the Group is monitoring the impact to customers to ensure they are treated fairly and with due care aligned with the Group's customer conduct risk framework. The virtual face-to-face sales processes and digital product offerings, rolled out in most markets during the pandemic, continue to be monitored for customer conduct, operational, regulatory compliance and commercial risks.

Management of Prudential's conduct risk is key to the Group's strategy. Prudential's conduct risks are managed and mitigated using the following:

- The Group's code of business conduct and conduct standards, product underwriting and other related risk policies, and supporting controls including the Group's fraud risk control programme;
- A culture that supports the fair treatment of the customer, incentivises the right behaviour through proper remuneration structures, and provides a safe environment to report conduct risk-related issues via the Group's internal processes and the Speak Out program;
- Distribution controls, including monitoring programmes relevant to the type of business (insurance or asset management), distribution channel (agency, bancassurance, or digital) and ecosystem, to ensure sales are conducted in a manner that considers the fair treatment of customers within digital environments;
- Quality of sales processes and training, and using other initiatives such as special requirements for vulnerable customers, to improve customer outcomes;
- Appropriate claims management and complaint handling practices; and
- Regular deep dive assessments on, and monitoring of, conduct risks and periodic conduct risk assessments.

Risks related to regulatory and legal compliance

Prudential operates in highly regulated markets and under the ever-evolving requirements and expectations of diverse and dynamic regulatory, legal and tax regimes which may impact its business or the way it is conducted. The complexity of legal and regulatory (including sanctions) compliance continues to evolve and increase, representing a challenge for international businesses. Compliance with the Group's legal or regulatory obligations (including in respect of international sanctions) in one jurisdiction may conflict with the law or policy objectives of another jurisdiction, or may be seen as supporting the law or policy objectives of one jurisdiction over another, creating additional legal, regulatory compliance and reputational risks. These risks may be increased where the scope of regulatory requirements and obligations are uncertain, and where specific cases applicable to the Group are complex. Regulatory risks cover a broad range of risks including changes in government policy and legislation, capital control measures, and new regulations at either a national or international level. The breadth of local and Group-wide regulatory arrangements presents the risk that requirements are not fully met, resulting in specific regulator interventions or actions including retrospective interpretation of standards by regulators. As the industry's use of emerging technological tools and digital services increases, this is likely to lead to new and unforeseen regulatory issues and the Group is monitoring emerging regulatory developments and standards on the governance and ethical use of technology and data. In certain jurisdictions in which Prudential operates there are a number of ongoing policy initiatives and regulatory developments which will impact the way Prudential is supervised. These developments continue to be monitored by the Group at a national and global level and these considerations form part of the Group's ongoing engagement with government policy teams, industry groups and regulators. Further information on specific areas of regulatory and supervisory focus and changes are included in the disclosures on Risk Factors.

Risk management and mitigation of regulatory risk at Prudential includes:

- Proactively adapting and complying with the latest regulatory developments;
- Group and business unit-level compliance oversight and risk-based testing in respect of adherence with regulations;
- Close monitoring and assessment of our business and regulatory environment and strategic risks;
- The explicit consideration of risk themes in strategic decisions;
- Ongoing engagement with national regulators, government policy teams and international standard setters; and
- Compliance oversight to ensure adherence with in-force regulations and management of new regulatory developments.

Notes

- 1 Excluding assets held to cover linked liabilities and those of the consolidated investment funds.
- 2 Based on middle rating from Standard & Poor's, Moody's and Fitch. If unavailable, NAIC and other external ratings and then internal ratings have been used.
- 3 Source of segmentation: Bloomberg Sector, Bloomberg Group and Merrill Lynch. Anything that cannot be identified from the three sources noted is classified as other.

Shareholder information

Form 20-F

Prudential will file Form 20-F with the Securities and Exchange Commission shortly and it will be available in due course on the Prudential plc website.

Forward-looking statements

This document contains 'forward-looking statements' with respect to certain of Prudential's (and its wholly and jointly owned businesses') plans and its goals and expectations relating to future financial condition, performance, results, strategy and objectives. Statements that are not historical facts, including statements about Prudential's (and its wholly and jointly owned businesses') beliefs and expectations and including, without limitation, commitments, ambitions and targets, including those related to ESG, and statements containing the words 'may', 'will', 'should', 'continue', 'aims', 'estimates', 'projects', 'believes', 'intends', 'expects', 'plans', 'seeks' 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 undue reliance should not be placed on them. By their nature, all forward-looking statements involve risk and uncertainty.

A number of important factors could cause 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:

- current and future market conditions, including fluctuations in interest rates and exchange rates, inflation (including resulting interest rate rises), sustained high or low interest rate environments, the performance of financial and credit markets generally and the impact of economic uncertainty, slowdown or contraction (including as a result of the Russia-Ukraine conflict and related or other geopolitical tensions and conflicts), which may also impact policyholder behaviour and reduce product affordability;
- asset valuation impacts from the transition to a lower carbon economy;
- derivative instruments not effectively mitigating any exposures;
- global political uncertainties, including the potential for increased friction in cross-border trade and the exercise of laws, regulations and executive powers to restrict trade, financial transactions, capital movements and/or investment;
- the longer-term impacts of Covid-19, including macro-economic impacts on financial market volatility and global economic activity and impacts on sales, claims, assumptions and increased product lapses;
- the policies and actions of regulatory authorities, including, in particular, the policies and actions of the Hong Kong Insurance Authority, as Prudential's Group-wide supervisor, as well as the degree and pace of regulatory changes and new government initiatives generally;
- given Prudential's designation as an Internationally Active Insurance Group, the impact on Prudential of systemic risk and other group supervision policy standards adopted by the International Association of Insurance Supervisors;
- the physical, social, morbidity/health and financial impacts of climate change and global health crises, which may impact Prudential's business, investments, operations and its duties owed to customers;
- legal, policy and regulatory developments in response to climate change and broader sustainability-related issues, including the development of regulations and standards and interpretations such as those relating to ESG reporting, disclosures and product labelling and their interpretations (which may conflict and create misrepresentation risks);
- the collective ability of governments, policymakers, the Group, industry and other stakeholders to implement and adhere to commitments on mitigation of climate change and broader sustainability-related issues effectively (including not appropriately considering the interests of all Prudential's stakeholders or failing to maintain high standards of corporate governance and responsible business practices);
- the impact of competition and fast-paced technological change;
- the effect on Prudential's business and results from, in particular, mortality and morbidity trends, lapse rates and policy renewal rates;
- the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries;
- the impact of internal transformation projects and other strategic actions failing to meet their objectives or adversely impacting the Group's employees;
- the availability and effectiveness of reinsurance for Prudential's businesses;
- the risk that Prudential's operational resilience (or that of its suppliers and partners) may prove to be inadequate, including in relation to operational disruption due to external events;
- disruption to the availability, confidentiality or integrity of Prudential's information technology, digital systems and data (or those of its suppliers and partners) including the Pulse platform;
- the increased non-financial and financial risks and uncertainties associated with operating joint ventures with independent partners, particularly where joint ventures are not controlled by Prudential;
- 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 Prudential and its affiliates operate; and
- the impact of legal and regulatory actions, investigations and disputes.

These factors are not exhaustive. Prudential operates in a continually changing business environment with new risks emerging from time to time that it may be unable to predict or that it currently does not expect to have a material adverse effect on its business. In addition, 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. Further discussion of these and other important factors that could cause actual future financial condition or performance to differ, possibly materially, from those anticipated in Prudential's forward-looking statements can be found under the 'Risk Factors' heading of this document, as well as under the 'Risk Factors' heading of Prudential's 2022 Annual Report and any subsequent filing Prudential makes with the US Securities and Exchange Commission, including any subsequent Annual Report on Form 20-F.

Any forward-looking statements contained in this document speak only as of the date on which they are made. Prudential 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 Guidance and Transparency Rules, the Hong Kong Listing Rules, the SGX-ST Listing Rules or other applicable laws and regulations.

Prudential may also make or disclose written and/or oral forward-looking statements in reports filed with or furnished to the US Securities and Exchange Commission, the UK Financial Conduct Authority, the Hong Kong Stock Exchange and other regulatory authorities, as well as in its annual report and accounts to shareholders, periodic financial reports to shareholders, proxy statements, offering circulars, registration statements, prospectuses, prospectus supplements, press releases and other written materials and in oral statements made by directors, officers or employees of Prudential to third parties, including financial analysts. All such forward-looking statements are qualified in their entirety by reference to the factors discussed under the 'Risk Factors' heading of this document, as well as under the 'Risk Factors' heading of Prudential's 2022 Annual Report and any subsequent filing Prudential makes with the US Securities and Exchange Commission, including any subsequent Annual Report on Form 20-F.

Cautionary statements

This document does not constitute or form part of any offer or invitation to purchase, acquire, subscribe for, sell, dispose of or issue, or any solicitation of any offer to purchase, acquire, subscribe for, sell or dispose of, any securities in any jurisdiction nor shall it (or any part of it) or the fact of its distribution, form the basis of, or be relied on in connection with, any contract therefor.

Corporate governance codes – statement of compliance

The Company has dual primary listings in Hong Kong (main board listing) and London (premium listing), and has therefore adopted a governance structure based on the Hong Kong and UK Corporate Governance Codes (the HK and UK Codes). The Annual Report explains how the principles set out in the HK and UK Codes have been applied.

The Board confirms that, for the year under review, the Company has applied the principles and complied with the provisions of the UK Code. The Company has also complied with the provisions of the HK Code, other than Provision E.1.2(d) of the HK Code, which requires companies, on a comply or explain basis, to have a remuneration committee which makes recommendations to a main board on the remuneration of non-executive directors. This provision is not compatible with provision 34 of the UK Code which recommends that the remuneration of non-executive directors be determined in accordance with the Articles of Association or, alternatively, by the Board. Prudential has chosen to adopt a practice in line with the recommendations of the UK Code.

The HK Code is available from www.hkex.com.hk

The UK Code is available from www.frc.org.uk

The Board also confirms that the financial results contained in this document have been reviewed by the Audit Committee.

2022 second interim dividend

Ex-dividend date	23 March 2023 (Hong Kong, UK and Singapore)
Record date	24 March 2023
Payment of dividend	15 May 2023 (Hong Kong, UK and ADR holders) On or around 22 May 2023 (Singapore)

The total number of Prudential plc shares in issue as at 31 December 2022 was 2,749,669,380. Each ordinary share carries the right to one vote on a poll at general meetings of Prudential plc. If votes are cast on a show of hands, each shareholder present in person or by proxy, or in the case of a corporation, each of its duly authorised corporate representatives, has one vote.

IFRS disclosures
Prudential plc 2022 results
International Financial Reporting Standards (IFRS) financial results

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Consolidated income statement

	Note	2022 \$m	2021 \$m
Continuing operations:			
Gross premiums earned	B1.3	23,344	24,217
Outward reinsurance premiums	B1.3	(1,943)	(1,844)
Earned premiums, net of reinsurance		21,401	22,373
Investment return	B1.3	(30,159)	3,486
Other income	B1.3	539	641
Total revenue, net of reinsurance		(8,219)	26,500
Benefits and claims	C3.2	17,997	(17,738)
Reinsurers' share of benefits and claims	C3.2	(6,168)	(971)
Movement in unallocated surplus of with-profits funds	C3.2	1,868	(202)
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance		13,697	(18,911)
Acquisition costs and other expenditure	B2	(3,880)	(4,560)
Finance costs: interest on core structural borrowings of shareholder-financed businesses		(200)	(328)
Gain (loss) attaching to corporate transactions	D1.1	55	(35)
Total charges net of reinsurance		9,672	(23,834)
Share of profit from joint ventures and associates, net of related tax		29	352
Profit before tax (<i>being tax attributable to shareholders' and policyholders' returns</i>) ^{note (i)}		1,482	3,018
Tax charge attributable to policyholders' returns		(21)	(342)
Profit before tax attributable to shareholders' returns		1,461	2,676
Total tax charge attributable to shareholders' and policyholders' returns	B3.1	(475)	(804)
Remove tax charge attributable to policyholders' returns	B3.1	21	342
Tax charge attributable to shareholders' returns		(454)	(462)
Profit after tax from continuing operations	B1.4	1,007	2,214
Loss after tax from discontinued US operations ^{note (ii)}	D1.2	–	(5,027)
Profit (loss) for the year		1,007	(2,813)

Attributable to:

Equity holders of the Company:			
From continuing operations		998	2,192
From discontinued US operations		–	(4,234)
		998	(2,042)

Non-controlling interests:

From continuing operations		9	22
From discontinued US operations		–	(793)
		9	(771)

Profit (loss) for the year		1,007	(2,813)
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Earnings per share (in cents)	Note	2022	2021
Based on profit attributable to equity holders of the Company:			
Basic	B4		
Based on profit from continuing operations		36.5¢	83.4¢
Based on loss from discontinued US operations ^{note (ii)}		–¢	(161.1)¢
Total basic earnings per share		36.5¢	(77.7)¢
Diluted			
Based on profit from continuing operations		36.5¢	83.4¢
Based on loss from discontinued US operations ^{note (ii)}		–¢	(161.1)¢
Total diluted earnings per share		36.5¢	(77.7)¢

Dividends per share (in cents)	Note	2022	2021
Dividends relating to reporting year:			
First interim dividend	B5	5.74¢	5.37¢
Second interim dividend		13.04¢	11.86¢
Total relating to the reporting year		18.78¢	17.23¢
Dividends paid in reporting year:			
Current year first interim dividend	B5	5.74¢	5.37¢
Second interim dividend for prior year		11.86¢	10.73¢
Total paid in the reporting year		17.60¢	16.10¢

Notes

- (i) This measure is the formal profit before tax measure under IFRS. It is not the result attributable to shareholders principally because total corporate tax of the Group includes those taxes 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 under IAS 12. Consequently, the IFRS profit before tax measure is not representative of pre-tax profit attributable to shareholders as it is determined after deducting the cost of policyholder benefits and movements in the liability for unallocated surplus of with-profits funds after adjusting for tax borne by policyholders.
- (ii) Discontinued operations for 2021 related to the US operations (Jackson) that were demerged from the Group in September 2021.

Consolidated statement of comprehensive income

	Note	2022 \$m	2021 \$m
Continuing operations:			
Profit for the year		1,007	2,214
Other comprehensive (loss) income:			
Exchange movements arising during the year		(541)	(180)
Valuation movements on retained interest in Jackson classified as available-for-sale securities:			
Unrealised (loss) gain arising during the year		(125)	273
Deduct net gains included in the income statement on disposal		(62)	(23)
		(187)	250
Total items that may be reclassified subsequently to profit or loss		(728)	70
Total comprehensive income from continuing operations		279	2,284
Total comprehensive loss from discontinued US operations	D1.2	–	(7,068)
Total comprehensive income (loss) for the year		279	(4,784)
Attributable to:			
Equity holders of the Company:			
From continuing operations		280	2,277
From discontinued US operations		–	(6,283)
		280	(4,006)
Non-controlling interests:			
From continuing operations		(1)	7
From discontinued US operations		–	(785)
		(1)	(778)
Total comprehensive income (loss) for the year		279	(4,784)

Consolidated statement of changes in equity

		Year ended 31 Dec 2022 \$m							
Note	Share capital	Share premium	Retained earnings	Translation reserve	Available-for-sale securities reserves	Shareholders' equity	Non-controlling interests	Total equity	
Reserves									
	-	-	998	-	-	998	9	1,007	
	-	-	-	(531)	(187)	(718)	(10)	(728)	
Total comprehensive income (loss) for the year									
Transactions with owners of the Company									
	-	-	998	(531)	(187)	280	(1)	279	
Dividends	B5	-	(474)	-	-	(474)	(8)	(482)	
Reserve movements in respect of share-based payments		-	24	-	-	24	-	24	
Effect of transactions relating to non-controlling interests		-	49	-	-	49	-	49	
New share capital subscribed	C8	-	(4)	-	-	(4)	-	(4)	
Movement in own shares in respect of share-based payment plans		-	(3)	-	-	(3)	-	(3)	
Net increase (decrease) in equity		-	594	(531)	(187)	(128)	(9)	(137)	
Balance at 1 Jan		182	5,010	10,216	1,430	17,088	176	17,264	
Balance at 31 Dec		182	5,006	10,810	899	16,960	167	17,127	

		Year ended 31 Dec 2021 \$m							
Note	Share capital	Share premium	Retained earnings	Translation reserve	Available-for-sale securities reserves	Shareholders' equity	Non-controlling interests	Total equity	
Reserves									
	-	-	2,192	-	-	2,192	22	2,214	
	-	-	-	(165)	250	85	(15)	70	
Total comprehensive income (loss) from continuing operations									
Total comprehensive (loss) income from discontinued US operations									
	-	-	2,192	(165)	250	2,277	7	2,284	
	D1.2	-	(4,234)	463	(2,512)	(6,283)	(785)	(7,068)	
Total comprehensive (loss) income for the year									
Transactions with owners of the Company									
	-	-	(2,042)	298	(2,262)	(4,006)	(778)	(4,784)	
Demerger dividend in specie of Jackson	B5	-	(1,735)	-	-	(1,735)	-	(1,735)	
Other dividends	B5	-	(421)	-	-	(421)	(9)	(430)	
Reserve movements in respect of share-based payments		-	46	-	-	46	-	46	
Effect of transactions relating to non-controlling interests*		-	(32)	-	-	(32)	(278)	(310)	
New share capital subscribed	C8	9	2,373	-	-	2,382	-	2,382	
Movement in own shares in respect of share-based payment plans		-	(24)	-	-	(24)	-	(24)	
Net increase (decrease) in equity		9	2,373	(4,208)	298	(3,790)	(1,065)	(4,855)	
Balance at 1 Jan		173	2,637	14,424	1,132	20,878	1,241	22,119	
Balance at 31 Dec		182	5,010	10,216	1,430	17,088	176	17,264	

* The \$(278) million in 2021 related to the derecognition of Athene's non-controlling interest upon the demerger of Jackson.

Consolidated statement of financial position

	Note	31 Dec 2022 \$m	31 Dec 2021 \$m
Assets			
Goodwill	C4.1	890	907
Deferred acquisition costs and other intangible assets	C4.2	7,155	6,858
Property, plant and equipment		419	478
Reinsurers' share of insurance contract liabilities		2,807	9,753
Deferred tax assets	C7.2	310	266
Current tax recoverable	C7.1	18	20
Accrued investment income		1,135	1,171
Other debtors		1,694	1,779
Investment properties		37	38
Investments in joint ventures and associates accounted for using the equity method		1,915	2,183
Loans	C1	2,536	2,562
Equity securities and holdings in collective investment schemes ^{note}	C1	57,679	61,601
Debt securities ^{note}	C1	76,989	99,094
Derivative assets	C2.2	569	481
Deposits		6,275	4,741
Cash and cash equivalents		5,514	7,170
Total assets	C1	165,942	199,102
Equity			
Shareholders' equity		16,960	17,088
Non-controlling interests		167	176
Total equity	C1	17,127	17,264
Liabilities			
Insurance contract liabilities	C3.2	121,213	150,755
Investment contract liabilities with discretionary participation features	C3.2	309	346
Investment contract liabilities without discretionary participation features	C3.2	741	814
Unallocated surplus of with-profits funds	C3.2	3,495	5,384
Core structural borrowings of shareholder-financed businesses	C5.1	4,261	6,127
Operational borrowings	C5.2	815	861
Obligations under funding, securities lending and sale and repurchase agreements		582	223
Net asset value attributable to unit holders of consolidated investment funds		4,193	5,664
Deferred tax liabilities	C7.2	2,872	2,862
Current tax liabilities	C7.1	208	185
Accruals, deferred income and other creditors		8,777	7,983
Provisions		348	372
Derivative liabilities	C2.2	1,001	262
Total liabilities	C1	148,815	181,838
Total equity and liabilities	C1	165,942	199,102

Note

Included within equity securities and holdings in collective investment schemes and debt securities as at 31 December 2022 are \$1,571 million of lent securities and assets subject to repurchase agreements (31 December 2021: \$854 million).

Consolidated statement of cash flows

	Note	2022 \$m	2021 \$m
Continuing operations:			
Cash flows from operating activities			
Profit before tax <i>(being tax attributable to shareholders' and policyholders' returns)</i>		1,482	3,018
Adjustments to profit before tax for non-cash movements in operating assets and liabilities:			
Investments		22,374	(14,553)
Other non-investment and non-cash assets		6,429	2,658
Policyholder liabilities (including unallocated surplus of with-profits funds)	C3.2	(29,208)	9,095
Other liabilities (including operational borrowings)		15	16
Investment income and interest payments included in profit before tax		(4,037)	(3,738)
Operating cash items:			
Interest receipts		2,689	2,328
Interest payments		(16)	(11)
Dividend receipts		1,523	1,480
Tax paid		(449)	(453)
Other non-cash items		276	438
Net cash flows from operating activities ^{note (i)}		1,078	278
Cash flows from investing activities			
Purchases of property, plant and equipment		(34)	(36)
Acquisition of business and intangibles ^{note (ii)}		(298)	(773)
Disposal of Jackson shares ^{note (ii)}		293	83
Net cash flows from investing activities		(39)	(726)
Cash flows from financing activities			
Structural borrowings of shareholder-financed operations: ^{note (iii)}	C5.1		
Issuance of debt, net of costs		346	995
Redemption of debt		(2,075)	(1,250)
Interest paid		(204)	(314)
Payment of principal portion of lease liabilities		(101)	(118)
Equity capital:			
Issues of ordinary share capital	C8	(4)	2,382
External dividends:			
Dividends paid to equity holders of the Company	B5	(474)	(421)
Dividends paid to non-controlling interests		(8)	(9)
Net cash flows from financing activities		(2,520)	1,265
Net (decrease) increase in cash and cash equivalents from continuing operations		(1,481)	817
Net decrease in cash and cash equivalents from discontinued US operations	D1.2	–	(1,621)
Cash and cash equivalents at 1 Jan		7,170	8,018
Effect of exchange rate changes on cash and cash equivalents		(175)	(44)
Cash and cash equivalents at 31 Dec		5,514	7,170

Notes

- (i) Included in net cash flows from operating activities are dividends from joint ventures and associates of \$112 million (2021: \$175 million).
- (ii) Net cash flows from other investing activities include amounts paid for distribution rights and cash flows arising from the sale of subsidiaries, joint ventures and associates and investments that do not form part of the Group's operating activities.
- (iii) Structural borrowings of shareholder-financed businesses exclude borrowings to support short-term fixed income securities programmes, non-recourse borrowings of investment subsidiaries of shareholder-financed businesses and other borrowings of shareholder-financed businesses. Cash flows in respect of these borrowings are included within cash flows from operating activities. The changes in the carrying value of the structural borrowings of shareholder-financed businesses for the Group are analysed below:

	Cash movements \$m			Non-cash movements \$m			Balance at 31 Dec \$m
	Balance at 1 Jan \$m	Issuance of debt	Redemption of debt	Foreign exchange movement	Demerger of Jackson	Other movements	
2022	6,127	346	(2,075)	(147)	–	10	4,261
2021	6,633	995	(1,250)	(13)	(250)	12	6,127

Notes to the financial statements

A Basis of preparation

A1 Basis of preparation and exchange rates

These consolidated financial statements have been prepared in accordance with IFRS Standards as issued by the IASB and in accordance with UK-adopted international accounting standards. At 31 December 2022, there were no unadopted standards effective for the year ended 31 December 2022 which had an impact on the consolidated financial statements of the Group, and there were no differences between UK-adopted international accounting standards and IFRS Standards as issued by the IASB in terms of their application to the Group.

The Group accounting policies are the same as those applied for the year ended 31 December 2021 with the exception of the adoption of the new and amended IFRS Standards as described in note A2.

The financial information set out in this announcement does not constitute the Company's statutory accounts for the years ended 31 December 2022 but is derived from those accounts. The auditors have reported on the 2022 statutory accounts. Statutory accounts for 2021 have been delivered to the Registrar of Companies, and those for 2022 will be delivered following the Company's Annual General Meeting. The auditors' report was: (i) unqualified; (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report; and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

Going concern basis of accounting

The Directors have made an assessment of going concern covering a period of at least 12 months from the date these consolidated financial statements and the parent company financial statements are approved. In making this assessment, the Directors have considered both the Group's current performance, solvency and liquidity and the Group's business plan taking into account the Group's principal risks and the mitigations available to address them, as well as the results of the Group's stress and scenario testing.

Based on the above, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue their operations for a period of at least 12 months from the date these consolidated financial statements are approved. No material uncertainties that may cast significant doubt on the ability of the Company and the Group to continue as a going concern have been identified. The Directors therefore consider it appropriate to continue to adopt the going concern basis of accounting in preparing these consolidated financial statements and the parent company financial statements for the year ended 31 December 2022.

Exchange rates

The exchange rates applied for balances and transactions in currencies other than the presentation currency of the Group, US dollars (USD) were:

USD : local currency	Closing rate at year end		Average rate for the year-to-date	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Chinese yuan (CNY)	6.95	6.37	6.73	6.45
Hong Kong dollar (HKD)	7.81	7.80	7.83	7.77
Indian rupee (INR)	82.73	74.34	78.63	73.94
Indonesian rupiah (IDR)	15,567.50	14,252.50	14,852.24	14,294.88
Malaysian ringgit (MYR)	4.41	4.17	4.40	4.15
Singapore dollar (SGD)	1.34	1.35	1.38	1.34
Taiwan dollar (TWD)	30.74	27.67	29.81	27.93
Thai baht (THB)	34.56	33.19	35.06	32.01
UK pound sterling (GBP)	0.83	0.74	0.81	0.73
Vietnamese dong (VND)	23,575.00	22,790.00	23,409.87	22,934.86

Certain notes to the consolidated financial statements present comparative information at constant exchange rates (CER), in addition to the reporting at actual exchange rates (AER) used throughout the consolidated financial statements. AER are actual historical exchange rates for the specific accounting year, being the average rates over the year for the income statement and the closing rates at the balance sheet date for the statement of financial position. CER results are calculated by translating prior year results using the current year foreign exchange rate, ie current year average rates for the income statement and current year closing rates for the statement of financial position.

A2 New accounting pronouncements in 2022

The IASB has issued the following new accounting pronouncements to be effective from 1 January 2022:

- Amendments to IAS 37 'Onerous contracts – Cost of Fulfilling a Contract' issued in May 2020;
- Annual Improvements to IFRS Standards 2018–2020 issued in May 2020;
- Amendments to IAS 16 'Property, Plant and Equipment – Proceeds before Intended Use' issued in May 2020; and
- Reference to the Conceptual Framework – Amendments to IFRS 3 'Business combination' issued in May 2020.

The adoption of these pronouncements has had no significant impact on the Group consolidated financial statements.

A3 IFRS 17 'Insurance Contracts' effective in 2023

IFRS 17 'Insurance Contracts' became effective on 1 January 2023 and replaces IFRS 4 'Insurance Contracts'. IFRS 4 permitted insurers to continue to use the statutory basis of accounting for insurance assets and liabilities that existed in their jurisdictions prior to January 2005. IFRS 17 replaced this with a new measurement model that significantly changes the way insurance and reinsurance contracts are accounted for, albeit the scope of IFRS 17 and IFRS 4 is very similar. Therefore, nearly all of the Group's insurance and investment contracts with discretionary participation features accounted under IFRS 4 will be accounted for under IFRS 17. The transition date of the Group for IFRS 17 was 1 January 2022. The Group is adopting IFRS 17 on its mandatory effective date on 1 January 2023, alongside the adoption of IFRS 9.

IFRS 17 implementation programme

The requirements of the new standard are complex and require a fundamental change to accounting, presentation and disclosures for insurance contracts as well as the application of significant judgement and new estimation techniques. The implementation of this standard has involved significant enhancements to IT, actuarial and finance systems of the Group. The Group has been implementing IFRS 17 and IFRS 9 through a Group-wide implementation programme.

A Group-wide Steering Committee, chaired by the Group Chief Financial Officer, provides oversight and strategic direction to the implementation programme. Regular updates on progress are provided to the Group Audit Committee and during 2022 members of the Committee, as well as the Board, received training on the new requirements. Since the last Annual Report, the systems implementation has been completed and the transition impacts at 1 January 2022 have been calculated. The production of half year and full year 2022 comparatives using the IFRS 17 accounting standard is scheduled to be completed in the first half of 2023.

Overview of IFRS 17

IFRS 17 requires liabilities for insurance contracts to be measured as the total of:

- fulfilment cash flows, comprising the best estimate of the present value of future cash flows within the contract boundary that are expected to arise and an explicit risk adjustment for non-financial risk; and
- a contractual service margin (CSM) that is representing the deferral of any day-one gains arising on initial recognition.

Losses are recognised directly into the income statement. For measurement purposes, contracts are grouped together into contracts of similar risk, profitability profile and issue year, with further divisions for contracts that are managed separately.

The establishment of CSM on the Group's in-force business and transition approach

Transition refers to the determination of the opening balance sheet for the first year of comparative information presented under IFRS 17 (ie at 1 January 2022). The future cash flows and risk adjustment are measured on a current basis in the same manner as they would be calculated for subsequent measurement. The key component of transition is therefore the determination of the CSM.

The standard requires IFRS 17 to be applied retrospectively (the 'fully retrospective approach') unless impracticable. If a fully retrospective approach is impracticable there is an option to choose either a modified retrospective approach or a fair value approach. If reasonable and supportable information necessary to apply the modified retrospective approach is not available, the fair value approach must be applied. The Group applied all three approaches on transition, after taking into account the information that is available to be used for the different groups of contracts of the Group. The fair value approach is applied, in particular, where suitable historical information required to apply the retrospective transition approaches is no longer practicably available.

Profit for insurance contracts under IFRS 17

IFRS 17 introduces a new measure of insurance revenue, based on the delivery of services to policyholders and excluding any premiums related to the investment elements of policies, which will be significantly different from existing premium revenue measures, currently reported in the income statement.

Profit for insurance contracts under IFRS 17 is represented by the recognition of the services provided to policyholders in the period (release of the CSM), release from non-economic risk (release of risk adjustment) and the excess of the actual investment return in the period over the effect of the unwind of the rate used to discount the General Measurement Model liabilities, together with operating variances as appropriate. CSM is released in line with coverage units that are a measure of the quantity of benefits provided under a contract and the period over which coverage is provided.

The CSM is released as profit over the coverage period of the insurance contract, reflecting the delivery of services to the policyholder. Under IFRS 17 insurance contracts are measured under either the General Measurement Model (GMM), the Variable Fee Approach (VFA) for contracts with direct participating features or the simplified Premium Allocation Approach (PAA). The Group predominantly uses the VFA and GMM, depending on the specific characteristics of the insurance contracts. The Group makes very limited use of the PAA for some small portfolios of short duration contracts. Reinsurance contracts held are measured under the GMM.

We estimate that over two-thirds of the CSM at transition is calculated using the VFA and relates to the Group's with-profits products, the Group's flagship critical illness products in Hong Kong and unit-linked products with a low proportion of protection riders. The contracts calculated using the GMM, include the Group's non-profit protection business and unit-linked business with a high proportion of protection riders.

The fulfilment cash flows comprise the best estimate of the present value of future cash flows within the contract boundary that are expected to arise and an explicit risk adjustment for non-financial risk. The discount rate applied to derive the present value of future cash flows is determined on a bottom-up basis, starting with a liquid risk-free yield curve and adding an illiquidity premium to reflect the characteristics of the insurance contracts. The risk adjustment reflects the compensation the Group requires for bearing the uncertainty about the amount and timing of the cash flows from non-financial risk as the Group fulfils insurance contracts, determined by the Group using a confidence level approach.

The fulfilment cash flows are updated each reporting date to reflect current conditions. For contracts with direct participating features which are accounted for under the VFA, the CSM represents the variable fee to shareholders and it is adjusted to reflect the effect of changes in economics as well as experience variances and/or assumptions changes that relate to future services. For contracts accounted for under GMM, the CSM is accreted using the locked-in discount rates and only adjusted to reflect the effect of non-economic experience variances and/or assumptions changes that relate to future services. The adjustments to the CSM are determined using the locked-in discount rates.

Expected impact on transition (1 January 2022)

The Group is adopting IFRS 17 retrospectively to its 2022 comparatives as required by the standard. As permitted by IFRS 9, the Group is not planning to restate the 2022 comparatives on initial application of IFRS 9 but the Group is taking advantage of the classification overlay for selected assets, principally to change the classification of certain debt securities, so that they are valued at amortised cost rather than at fair value under IAS 39, and certain loans, so that they are valued at fair value instead of the prior amortised cost valuation. Changes from IFRS 9 have an immaterial impact on the Group's financial statements.

The adoption of IFRS 17 and the IFRS 9 classification overlay are estimated to increase the Group shareholders' equity at 1 January 2022 to between \$18.9 - \$19.8 billion. This reflects the release of prudent margins from our legacy accounting basis, particularly in Hong Kong, recognition of the shareholders' share of the inherited estate within the with-profit funds and the net impact of timing differences in the pattern of profit recognition. The overall net impact of the IFRS 9 classification overlay at 1 January 2022 is insignificant given the vast majority of the Group's financial investments will continue to be carried at fair value through profit or loss under IFRS 9, as currently applied under IAS 39.

The Group is yet to complete production of its 2022 comparatives under the IFRS 17 accounting standard. In addition we continue to review our IFRS 17 accounting policies and approach to ensure they remain in line with market practice. Therefore the impacts discussed above are subject to change prior to finalisation of the Group's financial statements for the year ending 31 December 2023.

B Earnings performance

B1 Analysis of performance by segment

B1.1 Segment results

	Note	2022 \$m	2021 \$m		2022 vs 2021 %	
		note (i)	AER note (i)	CER note (i)	AER note (i)	CER note (i)
Continuing operations:						
CPL		368	343	329	7%	12%
Hong Kong		1,036	975	969	6%	7%
Indonesia		343	446	429	(23)%	(20)%
Malaysia		364	350	330	4%	10%
Singapore		678	663	646	2%	5%
Growth markets and other ^{note (ii)}		1,057	932	880	13%	20%
Eastspring		260	314	299	(17)%	(13)%
Total segment profit		4,106	4,023	3,882	2%	6%
Other income and expenditure unallocated to a segment:						
Net investment return and other items		39	21	21	86%	86%
Interest payable on core structural borrowings		(200)	(328)	(328)	39%	39%
Corporate expenditure ^{note (iii)}		(276)	(298)	(280)	7%	1%
Total other income (expenditure)	B1.4	(437)	(605)	(587)	28%	26%
Restructuring and IFRS 17 implementation costs ^{note (iv)}	B1.4	(294)	(185)	(178)	(59)%	(65)%
Adjusted operating profit	B1.2	3,375	3,233	3,117	4%	8%
Short-term fluctuations in investment returns on shareholder-backed business ^{note (v)}		(1,915)	(458)	(435)	(318)%	(340)%
Amortisation of acquisition accounting adjustments		(10)	(5)	(5)	(100)%	(100)%
Gain (loss) attaching to corporate transactions	D1.1	11	(94)	(91)	n/a	n/a
Profit before tax attributable to shareholders		1,461	2,676	2,586	(45)%	(44)%
Tax charge attributable to shareholders' returns	B3	(454)	(462)	(443)	2%	(2)%
Profit from continuing operations		1,007	2,214	2,143	(55)%	(53)%
Loss from discontinued US operations	D1.2	–	(5,027)	(5,027)	n/a	n/a
Profit (loss) for the year		1,007	(2,813)	(2,884)	–	–

Attributable to:

Equity holders of the Company						
From continuing operations		998	2,192	2,121	(54)%	(53)%
From discontinued US operations		–	(4,234)	(4,234)	n/a	n/a
		998	(2,042)	(2,113)	n/a	n/a
Non-controlling interests						
From continuing operations		9	22	22	n/a	n/a
From discontinued US operations		–	(793)	(793)	n/a	n/a
		9	(771)	(771)	n/a	n/a
Profit (loss) for the year		1,007	(2,813)	(2,884)	n/a	n/a

Basic earnings per share (in cents)

	Note	2022	2021		2022 vs 2021 %	
		note (i)	AER note (i)	CER note (i)	AER note (i)	CER note (i)
Based on adjusted operating profit, net of tax and non-controlling interest, from continuing operations	B4	100.5¢	101.5¢	97.7¢	(1)%	3%
Based on profit from continuing operations, net of non-controlling interest	B4	36.5¢	83.4¢	80.6¢	(56)%	(55)%
Based on loss from discontinued US operations, net of non-controlling interest	B4	–¢	(161.1)¢	(161.2)¢	n/a	n/a

Notes

- (i) Segment results are attributed to the shareholders of the Group before deducting the amount attributable to the non-controlling interests. This presentation is applied consistently throughout the document. For definitions of AER and CER refer to note A1.
- (ii) Adjusted operating profit for growth markets and other includes other items of \$211 million (2021: \$217 million on an AER basis; \$208 million on a CER basis) which in 2022 primarily included the impact of the adoption of the Risk-Based Capital regime in Hong Kong (as discussed further in note C3.2) partially offset by corporate taxes for life joint ventures and associates.
- (iii) Corporate expenditure as shown above is for head office functions.
- (iv) Restructuring and IFRS 17 implementation costs include those incurred in insurance and asset management operations of \$(137) million (2021: \$(101) million on an AER basis), largely comprising the costs of Group-wide projects including the implementation of IFRS 17, reorganisation programmes and initial costs of establishing new business initiatives and operations.
- (v) In general, the short-term fluctuations reflect the value movements on shareholders' assets and policyholder liabilities (net of reinsurance) arising from market movements in the year. In 2022, rising interest rates and widening credit spreads across a number of the Group's life insurance markets led to unrealised bond losses which more than offset the impact of higher discount rates on policyholder liabilities. The interest rates rises in 2022 were more substantial than that seen in 2021. Short-term fluctuations also reflect losses on equities backing shareholder-backed business following market movements in 2022 (2021: equity gains) and the impact of refinements to the reserving basis in Hong Kong following the adoption of the Risk-Based Capital regime (as discussed further in note C3.2).

B1.2 Determining operating segments and performance measure of operating segments

Operating segments

The Group's operating and reported segments for financial reporting purposes are defined and presented in accordance with IFRS 8 'Operating Segments' on the basis of the management reporting structure and its financial management information. Under the Group's management and reporting structure, its chief operating decision maker is the Group Executive Committee (GEC), chaired by the Chief Executive Officer. Performance measures for insurance operations are analysed by geographical areas for the larger business units of CPL, Hong Kong, Indonesia, Malaysia and Singapore, with Eastspring, the asset management business, also analysed separately. CPL is managed jointly with CITIC, a Chinese state-owned conglomerate. All other Asia and Africa insurance operations are included in the 'Growth markets and other' segment alongside other amounts that are not included in the segment profit of an individual business unit, including tax on life joint ventures and associates and other items that are not representative of the underlying segment trading for the period.

Operations and transactions which do not form part of any business unit are reported as 'Unallocated to a segment' and generally comprise head office functions, as presented in the additional segmental analysis in note B1.4.

Performance measure

The performance measure of operating segments utilised by the Group is IFRS operating profit based on longer-term investment returns (adjusted operating profit) as described below. This measurement basis distinguishes adjusted operating profit from other constituents of total profit or loss for the year as follows:

- Short-term fluctuations in investment returns on shareholder-backed business;
- Amortisation of acquisition accounting adjustments arising on the purchase of business; and
- Gain or loss on corporate transactions.

Determination of adjusted operating profit for investment and liability movements

With-profits business

For with-profits business in Hong Kong, Singapore and Malaysia, the adjusted operating profit reflects the shareholders' share in the bonuses declared to policyholders. Value movements in the underlying assets of the with-profits funds only affect the shareholder results through indirect effects of investment performance on declared policyholder bonuses and therefore, do not affect directly the determination of adjusted operating profit.

Assets and liabilities held within unit-linked funds

The policyholder unit liabilities are directly reflective of the underlying asset value movements. Accordingly, the adjusted operating profit reflects the current year value movements in both the unit liabilities and the backing assets, which offset one another.

Other shareholder-backed long-term insurance business

In the case of other shareholder-financed business, the measurement of adjusted operating profit reflects that, for the long-term insurance business, assets and liabilities are held for the longer term. For this business the Group believes trends in underlying performance are better understood if the effects of short-term fluctuations in market conditions, such as changes in interest rates or equity markets, are excluded. In determining the profit on this basis, the following key elements are applied to the results of the Group's shareholder-financed businesses.

(a) Policyholder liabilities that are sensitive to market conditions

Under IFRS, the degree to which the carrying values of liabilities to policyholders are sensitive to current market conditions varies between business units depending upon the nature of the 'grandfathered' measurement basis. Taiwan and India apply US GAAP, whose policyholder liabilities are not sensitive to market movements as they are locked in at policy inception.

Movements in liabilities for some types of business do require bifurcation between the elements that relate to longer-term market condition and short-term effects to ensure that at the net level (ie after allocated investment return and charge for policyholder benefits) the adjusted operating profit reflects longer-term market returns.

For certain non-participating business, for example in Hong Kong, the economic features are more akin to asset management products with policyholder liabilities reflecting asset shares over the contract term. Consequently, for these products, the charge for policyholder benefits in the adjusted operating profit reflects the asset share feature that is calculated assuming a longer-term return assumption rather than volatile movements that would otherwise be reflected if the IFRS balance sheet reserving basis was applied.

For other types of non-participating business, expected longer-term investment returns and interest rates are used to determine the movement in policyholder liabilities for determining adjusted operating profit. This ensures assets and liabilities are reflected on a consistent basis.

(b) Assets backing other shareholder-backed long-term insurance business

Except in the case of assets backing liabilities which are directly matched (such as unit-linked business) adjusted operating profit for assets backing shareholder-financed business is determined on the basis of expected longer-term investment returns. Longer-term investment returns comprise actual income receivable for the year (interest/dividend income) and longer-term capital returns, determined for debt and equity-type securities on the basis described below. The difference between the actual investment returns in the reporting period and the longer-term investment returns is recognised within short-term fluctuations in investment returns.

Debt securities and loans

As a general principle, for debt securities and loans, the longer-term investment returns comprise the interest receivable for the year and the amortisation of interest-related realised gains and losses to the date when sold securities would have otherwise matured (or a suitable proxy for this period). All unrealised gains and losses are treated as a component of short-term investment fluctuations. Consideration is given to the need to recognise an expected longer-term level of defaults for the securities within the longer-term investment returns, based on past performance and having regard to the credit quality of the portfolio, with any difference with actual credit-related realised losses arising in the year being included in short-term fluctuations. If, under this analysis, realised gains and losses are principally considered to be interest related with no significant credit-related losses based on past performance, then all realised gains and losses to date for these operations are treated as interest related and amortised to adjusted operating profit over the period to the date those securities would otherwise have matured and no separate charge to longer-term investment returns for credit defaults is made.

For Group debt securities at 31 December 2022, the level of interest-related realised gains and losses on previously sold bonds that had yet to be amortised to adjusted operating profit from short-term investment fluctuations was a net loss of \$(98) million (2021: net gain of \$515 million).

Equity-type securities

For equity-type securities that comprise both the Group's investments in direct equities and all of its collective investment scheme holdings, the longer-term rates of return are estimates of the long-term trend investment returns for income and capital having regard to past performance, current trends and future expectations. Different rates apply to different categories of the securities within this category.

For insurance operations, investments in equity-type securities held for non-linked shareholder-backed business amounted to \$7,089 million as at 31 December 2022 (31 December 2021: \$6,073 million). For Group's investments in direct equities, the longer-term rates of return applied in 2022 ranged from 8.7 per cent to 16.9 per cent (2021: 7.3 per cent to 16.9 per cent). For Group's collective investment scheme holdings, the longer-term rates of return applied ranged from 3.5 per cent to 10.7 per cent (2021: 3.6 per cent to 11.0 per cent) representing the range across business units of the weighted average expected longer-term return rates determined by reference to the underlying asset mix of the funds for each business unit. These rates are broadly stable from year to year but may be different between regions, reflecting, for example, differing expectations of inflation in each business unit.

The assumptions are for the returns expected to apply in equilibrium conditions. The assumed rates of return do not reflect any cyclical variability in economic performance and are not set by reference to prevailing asset valuations. The longer-term investment returns for the insurance joint ventures and associates accounted for using the equity method are determined on a similar basis as the other insurance operations described above.

Derivative value movements

Generally, derivative value movements are excluded from adjusted operating profit. The exception is where the derivative value movements broadly offset changes in the accounting value of other assets and liabilities included in adjusted operating profit.

Other non-insurance businesses

For these businesses, the determination of adjusted operating profit reflects the underlying economic substance of the arrangements. Generally, realised gains and losses are included in adjusted operating profit with temporary unrealised gains and losses being included in short-term fluctuations. In some instances, realised gains and losses on derivatives and other financial instruments are amortised to adjusted operating profit over a time period that reflects the underlying economic substance of the arrangements.

B1.3 Revenue

	2022 \$m									
	Insurance operations ^{note (i)}					Eastspring	Inter -segment elimination	Total segment	Unallocated to a segment	Total
	Hong Kong	Indonesia	Malaysia	Singapore	Growth markets and other					
Gross premiums earned	8,792	1,590	1,843	6,540	4,579	-	-	23,344	-	23,344
Outward reinsurance premiums	(1,494)	(34)	(58)	(299)	(58)	-	-	(1,943)	-	(1,943)
Earned premiums, net of reinsurance	7,298	1,556	1,785	6,241	4,521	-	-	21,401	-	21,401
Other income ^{note (ii)}	65	12	-	15	116	330	-	538	1	539
Total external revenue	7,363	1,568	1,785	6,256	4,637	330	-	21,939	1	21,940
Intra-group revenue	-	-	-	-	1	199	(200)	-	-	-
Interest income ^{note B1.3(b)}	996	83	217	744	628	4	-	2,672	50	2,722
Dividend and other investment income	689	77	183	576	107	1	-	1,633	25	1,658
Investment appreciation (depreciation)	(23,704)	(70)	(365)	(7,498)	(2,876)	(21)	-	(34,534)	(5)	(34,539)
Total revenue, net of reinsurance	(14,656)	1,658	1,820	78	2,497	513	(200)	(8,290)	71	(8,219)

	2021 \$m									
	Insurance operations ^{note (i)}					Eastspring	Inter -segment elimination	Total segment	Unallocated to a segment	Total
	Hong Kong	Indonesia	Malaysia	Singapore	Growth markets and other					
Gross premiums earned	10,032	1,724	1,900	6,246	4,315	-	-	24,217	-	24,217
Outward reinsurance premiums	(1,557)	(43)	(47)	(137)	(60)	-	-	(1,844)	-	(1,844)
Earned premiums, net of reinsurance	8,475	1,681	1,853	6,109	4,255	-	-	22,373	-	22,373
Other income ^{note (ii)}	52	12	-	22	117	437	-	640	1	641
Total external revenue	8,527	1,693	1,853	6,131	4,372	437	-	23,013	1	23,014
Intra-group revenue	-	-	-	-	1	217	(218)	-	-	-
Interest income ^{note B1.3(b)}	934	87	220	707	618	3	-	2,569	1	2,570
Dividend and other investment income	679	74	160	506	86	-	-	1,505	19	1,524
Investment appreciation (depreciation)	57	34	(300)	(29)	(361)	8	-	(591)	(17)	(608)
Total revenue, net of reinsurance	10,197	1,888	1,933	7,315	4,716	665	(218)	26,496	4	26,500

Notes

- (i) CPL, Prudential's life business in the Chinese Mainland, is a joint venture with CITIC and is accounted for using the equity method under IFRS. The Group's share of its results is presented in a single line within the Group's profit before tax on a net of related tax basis, and therefore not shown in the analysis of revenue line items above. Revenue from external customers of CPL (Prudential's share) in 2022 is \$2,948 million (2021: \$3,052 million).
- (ii) Other income comprises income from external customers and consists primarily of revenue from the Group's asset management business of \$330 million (2021: \$437 million). The remaining other income consists primarily of policy fee revenue from external customers and asset management rebate revenue from external fund managers. Also included in other income is fee income on financial instruments that are not held at FVTPL of \$2 million (2021: \$1 million).

B1.4 Additional segmental analysis of profit after tax

	2022 \$m	2021 \$m
CPL	(144)	278
Hong Kong	(211)	1,068
Indonesia	243	362
Malaysia	252	265
Singapore	406	394
Growth markets and other ^{note (i)}	881	434
Eastspring	234	284
Total segment	1,661	3,085
Unallocated to a segment (central operations) ^{note (ii)}	(654)	(871)
Total profit after tax	1,007	2,214

Notes

- (i) The Growth markets and other segment comprises all other Asia and Africa insurance businesses alongside other amounts that are not included in the segment profit of an individual business unit, including tax on life joint ventures and associates and other items that are not representative of the underlying segment trading for the year, in line with the presentation used by management when assessing the performance of the underlying segments internally.
- (ii) Comprising other income and expenditure of \$(437) million (2021: \$(605) million) attributable to the head office functions, \$(294) million (2021: \$(185) million) of restructuring and IFRS 17 implementation costs, \$19 million (2021: \$(25) million) of short-term fluctuations on investment returns in central operations, \$62 million (2021: \$(35) million) of corporate transactions and related tax of \$(4) million (2021: \$(21) million).

B2 Acquisition costs and other expenditure

	2022 \$m	2021 \$m
Acquisition costs incurred for insurance policies	(2,325)	(2,089)
Acquisition costs deferred	1,002	848
Amortisation of acquisition costs	(475)	(343)
Administration costs and other expenditure (net of other reinsurance commission)	(3,100)	(3,128)
Movements in amounts attributable to external unit holders of consolidated investment funds	1,018	152
Total acquisition costs and other expenditure	(3,880)	(4,560)

B3 Tax charge

B3.1 Total tax charge by nature

The total tax charge in the income statement is as follows:

	2022 \$m	2021 \$m
Attributable to shareholders:		
Hong Kong	(52)	(40)
Indonesia	(60)	(74)
Malaysia	(90)	(71)
Singapore	(78)	(67)
Growth markets and other	(144)	(159)
Eastspring	(26)	(30)
Total segment	(450)	(441)
Unallocated to a segment (central operations)	(4)	(21)
Tax charge attributable to shareholders	(454)	(462)
Attributable to policyholders:		
Hong Kong	(56)	(79)
Indonesia	(5)	4
Malaysia	–	(2)
Singapore	44	(261)
Growth markets and other	(4)	(4)
Tax charge attributable to policyholders	(21)	(342)
Total tax charge	(475)	(804)

Profit before tax includes Prudential's share of profit after tax from the joint ventures and associates that are equity-accounted for. Therefore, the actual tax charge in the income statement does not include tax arising from the results of joint ventures and associates including CPL.

The reconciliation of the expected to actual tax charge attributable to shareholders is provided in B3.2 below. The tax charge attributable to policyholders of \$(21) million (2021: \$(342) million) above is equal to the profit before tax attributable to policyholders as a result of accounting for policyholder income after the deduction of expenses and movement in unallocated surpluses on a post-tax basis. The reduction in the tax charge attributable to policyholders results from the deferred tax impact of policyholder liability movements caused by adverse market movements in 2022, primarily in Singapore.

B3.2 Reconciliation of shareholder effective tax rate

In the reconciliation below, the expected tax rate reflects the corporation tax rates that are expected to apply to the taxable profit or loss for the period. It reflects the corporation tax rates of each jurisdiction weighted by reference to the amount of profit or loss contributing to the aggregate result.

	2022		2021	
	Tax attributable to shareholders \$m	Percentage impact on ETR %	Tax attributable to shareholders \$m	Percentage impact on ETR %
Adjusted operating profit	3,375		3,233	
Non-operating result ^{note (i)}	(1,914)		(557)	
Profit before tax	1,461		2,676	
Tax charge at the expected rate	(287)	20%	(539)	20%
Effects of recurring tax reconciliation items:				
Income not taxable or taxable at concessionary rates ^{note (ii)}	61	(4)%	63	(2)%
Deductions and losses not allowable for tax purposes ^{note (iii)}	(196)	13%	(92)	3%
Items related to taxation of life insurance businesses ^{note (iv)}	108	(7)%	177	(7)%
Deferred tax adjustments including unrecognised tax losses ^{note (v)}	(45)	3%	(111)	4%
Effect of results of joint ventures and associates ^{note (vi)}	3	0%	80	(3)%
Irrecoverable withholding taxes ^{note (vii)}	(55)	4%	(60)	2%
Other	(15)	0%	(8)	1%
Total (charge) credit on recurring items	(139)	9%	49	(2)%
Effects of non-recurring tax reconciliation items:				
Adjustments to tax charge in relation to prior years	1	0%	(11)	0%
Movements in provisions for open tax matters ^{note (viii)}	(40)	3%	47	(2)%
Impact of changes in local statutory tax rates	-	0%	6	0%
Adjustments in relation to business disposals and corporate transactions	11	(1)%	(14)	1%
Total (charge) credit on non-recurring items	(28)	2%	28	(1)%
Total actual tax charge	(454)	31%	(462)	17%
Analysed into:				
Tax charge on adjusted operating profit	(614)		(548)	
Tax credit on non-operating result ^{note (i)}	160		86	
Actual tax rate on:				
Adjusted operating profit:				
Including non-recurring tax reconciling items ^{note (ix)}	18%		17%	
Excluding non-recurring tax reconciling items	17%		18%	
Total profit ^{note (ix)}	31%		17%	

Notes

- (i) 'Non-operating result' is used to refer to items excluded from adjusted operating profit and includes short-term investment fluctuations in investment returns on shareholder-backed business, corporate transactions and amortisation of acquisition accounting adjustments. The tax charge on non-operating result is calculated using the tax rates applicable to investment profit or loss recorded in the non-operating result for each entity, and then adjusting for any discrete items included in the total tax charge that relate specifically to the amounts (other than investment related profit or loss) included in the non-operating result. The difference between this tax on non-operating result and the tax charge calculated on profit before tax is the tax charge on adjusted operating profit.
- (ii) Income not taxable or taxable at concessionary rates primarily relates to non-taxable investment income in Malaysia and Singapore.
- (iii) Deductions and losses not allowable for tax purposes primarily relates to non-deductible investment losses in Growth markets.
- (iv) Items related to taxation of life insurance businesses primarily relates to Hong Kong where the taxable profit is computed as 5 per cent of net insurance premiums.
- (v) The unrecognised tax losses reconciling amount reflects losses arising where it is unlikely that relief for the losses will be available in future years.
- (vi) Profit before tax includes Prudential's share of profit 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.
- (vii) The Group incurs withholding tax on remittances received from certain jurisdictions and on certain investment income. Where these withholding taxes cannot be offset against corporate income tax or otherwise recovered, they represent a cost to the Group. Irrecoverable withholding tax on remittances is included in Other operations and is not allocated to any segment. Irrecoverable withholding tax on investment income is included in the relevant segment where the investment income is reflected.
- (viii) The statement of financial position contains the following provisions in relation to open tax matters:

	2022 \$m
Balance at 1 Jan	(42)
Movements in the current year included in tax charge attributable to shareholders	(40)
Other movements (including interest arising on open tax matters and amounts included in the Group's share of profits from joint ventures and associates, net of related tax)	3
Balance at 31 Dec	(79)

(ix) The actual tax rates of the relevant business operations are shown below:

	2022 %							Total attributable to shareholders
	Hong Kong	Indonesia	Malaysia	Singapore	Growth markets and other	Eastspring	Other operations	
Tax rate on adjusted operating profit	6%	20%	26%	16%	24%	10%	(1)%	18%
Tax rate on profit before tax	(33)%	20%	26%	16%	14%	10%	(1)%	31%

	2021 %							Total attributable to shareholders
	Hong Kong	Indonesia	Malaysia	Singapore	Growth markets and other	Eastspring	Other operations	
Tax rate on adjusted operating profit	5%	17%	21%	15%	22%	10%	(3)%	17%
Tax rate on profit before tax	4%	17%	21%	15%	27%	10%	(2)%	17%

B4 Earnings per share

	2022					
	Before tax \$m	Tax \$m	Non-controlling interests \$m	Net of tax and non-controlling interests \$m	Basic earnings per share cents	Diluted earnings per share cents
Based on adjusted operating profit	3,375	(614)	(11)	2,750	100.5¢	100.5¢
Short-term fluctuations in investment returns on shareholder-backed business	(1,915)	155	2	(1,758)	(64.3)¢	(64.3)¢
Amortisation of acquisition accounting adjustments	(10)	–	–	(10)	(0.4)¢	(0.4)¢
Gain attaching to corporate transactions	11	5	–	16	0.7¢	0.7¢
Based on profit for the year	1,461	(454)	(9)	998	36.5¢	36.5¢

	2021					
	Before tax \$m	Tax \$m	Non-controlling interests \$m	Net of tax and non-controlling interests \$m	Basic earnings per share cents	Diluted earnings per share cents
Based on adjusted operating profit	3,233	(548)	(17)	2,668	101.5¢	101.5¢
Short-term fluctuations in investment returns on shareholder-backed business	(458)	81	(5)	(382)	(14.5)¢	(14.5)¢
Amortisation of acquisition accounting adjustments	(5)	–	–	(5)	(0.2)¢	(0.2)¢
Loss attaching to corporate transactions	(94)	5	–	(89)	(3.4)¢	(3.4)¢
Based on profit from continuing operations	2,676	(462)	(22)	2,192	83.4¢	83.4¢
Based on loss from discontinued US operations				(4,234)	(161.1)¢	(161.1)¢
Based on loss for the year				(2,042)	(77.7)¢	(77.7)¢

Basic earnings per share are calculated based on earnings attributable to ordinary shareholders, after related tax and non-controlling interests, divided by the weighted average number of ordinary shares outstanding during the year, excluding those held in employee share trusts, which are treated as cancelled. For diluted earnings per share, the weighted average number of shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group's only class of potentially dilutive ordinary shares are those share options granted to employees where the exercise price is less than the average market price of the ordinary shares during the year. No adjustment is made if the impact is anti-dilutive overall.

The weighted average number of shares for calculating basic and diluted earnings per share, which excludes those held in employee share trusts, is set out as below:

Number of shares (in millions)	2022	2021
Weighted average number of shares for calculation of basic earnings per share	2,736	2,628
Shares under option at end of year	1	2
Shares that would have been issued at fair value on assumed option price at end of year	(1)	(2)
Weighted average number of shares for calculation of diluted earnings per share	2,736	2,628

B5 Dividends

	2022		2021	
	Cents per share	\$m	Cents per share	\$m
Dividends relating to reporting year:				
First interim dividend	5.74¢	154	5.37¢	140
Second interim dividend	13.04¢	359	11.86¢	326
Total relating to reporting year	18.78¢	513	17.23¢	466
Dividends paid in reporting year:				
Current year first interim dividend	5.74¢	154	5.37¢	138
Second interim dividend for prior year	11.86¢	320	10.73¢	283
Total paid in reporting year	17.60¢	474	16.10¢	421

First and second interim dividends are recorded in the period in which they are paid. In addition to the dividends shown in the table above, on 13 September 2021, following approval by the Group's shareholders, Prudential plc demerged its US operations (Jackson) via a dividend in specie of \$1,735 million.

Dividend per share

The 2022 first interim dividend of 5.74 cents per ordinary share was paid to eligible shareholders on 27 September 2022.

On 15 May 2023, Prudential will pay a second interim dividend of 13.04 cents per ordinary share for the year ended 31 December 2022. The second interim dividend will be paid to shareholders included on the UK register at 5.00pm (Greenwich Mean Time) and to shareholders on the HK branch register at 4.30pm (Hong Kong Time) on 24 March 2023 (Record Date), and also to the Holders of US American Depositary Receipts (ADRs) as at 24 March 2023. The second interim dividend will be paid on or about 22 May 2023 to shareholders with shares standing to the credit of their securities accounts with The Central Depository (Pte) Limited (CDP) at 5.00pm (Singapore Time) on the Record Date.

Shareholders holding shares on the UK or HK share registers will continue to receive their dividend payments in either GBP or HKD respectively, unless they elect otherwise. Shareholders holding shares on the UK or HK registers may elect to receive dividend payments in USD. Elections must be made through the relevant UK or HK share registrar on or before 19 April 2023. The corresponding amounts per share in GBP and HKD are expected to be announced on or about 27 April 2023. The USD to GBP and HKD conversion rates will be determined by the actual rates achieved by Prudential buying those currencies prior to the subsequent announcement.

Holders of ADRs will continue to receive their dividend payments in USD. Shareholders holding an interest in Prudential shares through CDP in Singapore will continue to receive their dividend payments in SGD at an exchange rate determined by CDP.

Shareholders on the UK register are eligible to participate in a Dividend Reinvestment Plan.

C Financial position

C1 Group assets and liabilities by business type

The analysis below is structured to show the investments and other assets and liabilities of the Group by reference to the differing degrees of policyholder and shareholder economic interest of the different types of business.

Debt securities are analysed below according to the issuing government for sovereign debt and to credit ratings for the rest of the securities. The Group uses the middle of the Standard & Poor's, Moody's and Fitch ratings, where available. Where ratings are not available from these rating agencies, local external rating agencies' ratings and lastly internal ratings have been used. Securities with none of the ratings listed above are classified as unrated and included under the 'below BBB- and unrated' category. The total securities (excluding sovereign debt) that were unrated at 31 December 2022 were \$1,152 million (31 December 2021: \$1,130 million). Additionally, government debt is shown separately from the rating breakdowns in order to provide a more focused view of the credit portfolio.

In the table below, AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB- ratings. Financial assets which fall outside this range are classified as below BBB-.

31 Dec 2022 \$m

Asia and Africa									
Insurance									
	With- profits note (i)	Unit- linked note (i)	Other note (i)	Eastspring	Elimina- tions	Total	Unallo- cated to a segment	Elimina- tion of intra-group debtors and creditors	Group total
Debt securities ^{note (ii)}									
Sovereign debt									
Indonesia	482	589	483	3	-	1,557	-	-	1,557
Singapore	3,240	507	917	67	-	4,731	-	-	4,731
Thailand	-	-	1,456	-	-	1,456	-	-	1,456
United Kingdom	-	4	-	-	-	4	-	-	4
United States	19,983	54	1,854	-	-	21,891	-	-	21,891
Vietnam	1	12	2,397	-	-	2,410	-	-	2,410
Other (predominantly Asia)	2,041	646	3,288	27	-	6,002	-	-	6,002
Subtotal	25,747	1,812	10,395	97	-	38,051	-	-	38,051
Other government bonds									
AAA	1,480	85	108	-	-	1,673	-	-	1,673
AA+ to AA-	105	21	27	-	-	153	-	-	153
A+ to A-	746	139	248	-	-	1,133	-	-	1,133
BBB+ to BBB-	292	77	134	-	-	503	-	-	503
Below BBB- and unrated	227	22	323	-	-	572	-	-	572
Subtotal	2,850	344	840	-	-	4,034	-	-	4,034
Corporate bonds									
AAA	996	181	362	-	-	1,539	-	-	1,539
AA+ to AA-	1,951	385	1,556	-	-	3,892	-	-	3,892
A+ to A-	7,230	524	4,348	-	-	12,102	-	-	12,102
BBB+ to BBB-	7,885	1,325	3,974	1	-	13,185	-	-	13,185
Below BBB- and unrated	2,090	444	1,282	-	-	3,816	-	-	3,816
Subtotal	20,152	2,859	11,522	1	-	34,534	-	-	34,534
Asset-backed securities									
AAA	168	5	126	-	-	299	-	-	299
AA+ to AA-	6	1	3	-	-	10	-	-	10
A+ to A-	20	-	14	-	-	34	-	-	34
BBB+ to BBB-	14	-	9	-	-	23	-	-	23
Below BBB- and unrated	2	1	1	-	-	4	-	-	4
Subtotal	210	7	153	-	-	370	-	-	370
Total debt securities	48,959	5,022	22,910	98	-	76,989	-	-	76,989
Loans									
Mortgage loans	-	-	140	-	-	140	-	-	140
Policy loans	1,498	-	422	-	-	1,920	-	-	1,920
Other loans	472	-	4	-	-	476	-	-	476
Total loans	1,970	-	566	-	-	2,536	-	-	2,536
Equity securities and holdings in collective investment schemes									
Direct equities	13,063	11,379	2,139	61	-	26,642	266	-	26,908
Collective investment schemes	19,057	6,760	4,950	2	-	30,769	2	-	30,771
Total equity securities and holdings in collective investment schemes	32,120	18,139	7,089	63	-	57,411	268	-	57,679
Other financial investments ^{note (iii)}									
Total financial investments	84,842	23,540	33,381	268	-	142,031	2,017	-	144,048
Investment properties	-	-	37	-	-	37	-	-	37
Investments in joint ventures and associates accounted for using the equity method	-	-	1,601	314	-	1,915	-	-	1,915
Cash and cash equivalents	1,038	749	1,791	127	-	3,705	1,809	-	5,514
Reinsurers' share of insurance contract liabilities	145	-	2,662	-	-	2,807	-	-	2,807
Other assets	1,156	154	9,665	713	(67)	11,621	3,409	(3,409)	11,621
Total assets	87,181	24,443	49,137	1,422	(67)	162,116	7,235	(3,409)	165,942
Shareholders' equity	-	-	14,407	1,058	-	15,465	1,495	-	16,960
Non-controlling interests	-	-	43	124	-	167	-	-	167
Total equity	-	-	14,450	1,182	-	15,632	1,495	-	17,127
Contract liabilities and unallocated surplus of with-profits funds	77,687	22,842	25,229	-	-	125,758	-	-	125,758
Core structural borrowings	-	-	-	-	-	-	4,261	-	4,261
Operational borrowings	118	-	86	15	-	219	596	-	815
Other liabilities	9,376	1,601	9,372	225	(67)	20,507	883	(3,409)	17,981
Total liabilities	87,181	24,443	34,687	240	(67)	146,484	5,740	(3,409)	148,815
Total equity and liabilities	87,181	24,443	49,137	1,422	(67)	162,116	7,235	(3,409)	165,942

Asia and Africa									
Insurance									
	With- profits note (i)	Unit- linked note (i)	Other note (i)	Eastspring	Elimina- tions	Total	Unallo- cated to a segment	Elimina- tion of intra-group debtors and creditors	Group total
Debt securities ^{note (ii)}									
Sovereign debt									
Indonesia	414	598	609	11	–	1,632	–	–	1,632
Singapore	3,684	550	1,068	126	–	5,428	–	–	5,428
Thailand	–	–	1,577	3	–	1,580	–	–	1,580
United Kingdom	–	7	–	–	–	7	226	–	233
United States	28,552	47	3,525	–	–	32,124	–	–	32,124
Vietnam	–	20	3,022	–	–	3,042	–	–	3,042
Other (predominantly Asia)	2,030	720	4,001	21	–	6,772	–	–	6,772
Subtotal	34,680	1,942	13,802	161	–	50,585	226	–	50,811
Other government bonds									
AAA	1,472	86	246	–	–	1,804	–	–	1,804
AA+ to AA-	45	2	12	–	–	59	–	–	59
A+ to A-	667	119	304	–	–	1,090	–	–	1,090
BBB+ to BBB-	121	16	116	–	–	253	–	–	253
Below BBB- and unrated	204	15	450	–	–	669	–	–	669
Subtotal	2,509	238	1,128	–	–	3,875	–	–	3,875
Corporate bonds									
AAA	1,222	236	411	–	–	1,869	–	–	1,869
AA+ to AA-	2,203	359	1,858	–	–	4,420	–	–	4,420
A+ to A-	9,046	675	5,294	–	–	15,015	–	–	15,015
BBB+ to BBB-	9,523	1,711	5,105	–	–	16,339	–	–	16,339
Below BBB- and unrated	4,009	678	1,827	–	–	6,514	–	–	6,514
Subtotal	26,003	3,659	14,495	–	–	44,157	–	–	44,157
Asset-backed securities									
AAA	88	6	74	–	–	168	–	–	168
AA+ to AA-	6	1	4	–	–	11	–	–	11
A+ to A-	26	–	17	–	–	43	–	–	43
BBB+ to BBB-	15	–	9	–	–	24	–	–	24
Below BBB- and unrated	2	2	1	–	–	5	–	–	5
Subtotal	137	9	105	–	–	251	–	–	251
Total debt securities	63,329	5,848	29,530	161	–	98,868	226	–	99,094
Loans									
Mortgage loans	–	–	150	–	–	150	–	–	150
Policy loans	1,365	–	368	–	–	1,733	–	–	1,733
Other loans	668	–	11	–	–	679	–	–	679
Total loans	2,033	–	529	–	–	2,562	–	–	2,562
Equity securities and holdings in collective investment schemes									
Direct equities	10,290	12,812	2,286	84	–	25,472	683	–	26,155
Collective investment schemes	23,950	7,704	3,787	3	–	35,444	2	–	35,446
Total equity securities and holdings in collective investment schemes	34,240	20,516	6,073	87	–	60,916	685	–	61,601
Other financial investments ^{note (iii)}	1,561	149	2,318	106	–	4,134	1,088	–	5,222
Total financial investments	101,163	26,513	38,450	354	–	166,480	1,999	–	168,479
Investment properties	–	–	38	–	–	38	–	–	38
Investments in joint ventures and associates accounted for using the equity method	–	–	1,878	305	–	2,183	–	–	2,183
Cash and cash equivalents	905	911	1,444	181	–	3,441	3,729	–	7,170
Reinsurers' share of insurance contract liabilities	225	–	9,528	–	–	9,753	–	–	9,753
Other assets	1,184	166	9,191	759	(51)	11,249	3,608	(3,378)	11,479
Total assets	103,477	27,590	60,529	1,599	(51)	193,144	9,336	(3,378)	199,102
Shareholders' equity	–	–	14,289	1,120	–	15,409	1,679	–	17,088
Non-controlling interests	–	–	45	131	–	176	–	–	176
Total equity	–	–	14,334	1,251	–	15,585	1,679	–	17,264
Contract liabilities and unallocated surplus of with-profits funds	94,002	25,651	37,646	–	–	157,299	–	–	157,299
Core structural borrowings	–	–	–	–	–	–	6,127	–	6,127
Operational borrowings	142	–	106	18	–	266	595	–	861
Other liabilities	9,333	1,939	8,443	330	(51)	19,994	935	(3,378)	17,551
Total liabilities	103,477	27,590	46,195	348	(51)	177,559	7,657	(3,378)	181,838
Total equity and liabilities	103,477	27,590	60,529	1,599	(51)	193,144	9,336	(3,378)	199,102

Notes

- (i) 'With-profits' comprises the with-profits assets and liabilities of the Hong Kong, Malaysia and Singapore operations. 'Unit-linked' comprises the assets and liabilities held in the unit-linked funds. 'Other' includes assets and liabilities of other participating business and other non-linked shareholder-backed business.
- (ii) Of the Group's debt securities, the following amounts were held by the consolidated investment funds.

	31 Dec 2022 \$m	31 Dec 2021 \$m
Debt securities held by consolidated investment funds	11,899	15,076

- (iii) Other financial investments comprise derivative assets and deposits.

C2 Fair value measurement

C2.1 Determination of fair value

The fair values of the financial instruments for which fair valuation is required under IFRS Standards are determined by the use of quoted market prices for exchange-quoted investments, or by using quotations from independent third parties, such as brokers and pricing services or by using appropriate valuation techniques.

The estimated fair value of derivative financial instruments reflects the estimated amount the Group would receive or pay in an arm's-length transaction. This amount is determined using quoted prices if exchange listed, quotations from independent third parties or valued internally using standard market practices.

Other than the loans which have been designated at fair value through profit or loss, the carrying value of loans and receivables is presented net of provisions for impairment. The fair value of loans is estimated from discounted cash flows expected to be received.

The fair value of the subordinated and senior debt issued by the parent company is determined using quoted prices from independent third parties.

The fair value of financial liabilities (other than subordinated debt, senior debt and derivative financial instruments) is determined using discounted cash flows of the amounts expected to be paid.

Valuation approach for level 2 fair valued assets and liabilities

A significant proportion of the Group's level 2 assets are corporate bonds, structured securities and other non-national government debt securities. These assets, in line with market practice, are generally valued using a designated independent pricing service or quote from third-party brokers. These valuations are subject to a number of monitoring controls, such as comparison to multiple pricing sources where available, monthly price variances, stale price reviews and variance analysis on prices achieved on subsequent trades.

When prices are not available from pricing services, quotes are sourced directly from brokers. Prudential seeks to obtain a number of quotes from different brokers so as to obtain the most comprehensive information available on their executability. The selected quote is the one which best represents an executable quote for the security at the measurement date.

Generally, no adjustment is made to the prices obtained from independent third parties. Adjustments are made in only limited circumstances, where it is determined that the third-party valuations obtained do not reflect fair value (eg either because the value is stale and/or the values are extremely diverse in range). Securities valued in such manner are classified as level 3 where these significant inputs are not based on observable market data.

Valuation approach for level 3 fair valued assets and liabilities

Investments valued using valuation techniques include financial investments which by their nature do not have an externally quoted price based on regular trades, and financial investments for which markets are no longer active as a result of market conditions, eg market illiquidity.

The Group's valuation policies, procedures and analyses for instruments categorised as level 3 are overseen by Business Unit committees as part of the Group's wider financial reporting governance processes. The procedures undertaken include approval of valuation methodologies, verification processes, and resolution of significant or complex valuation issues. In addition, the Group has minimum standards for independent price verification to ensure valuation accuracy is regularly independently verified. Adherence to this policy is monitored across the business units.

C2.2 Fair value measurement hierarchy of Group assets and liabilities

Assets and liabilities carried at fair value on the statement of financial position

The table below shows the assets and liabilities carried at fair value analysed by level of the IFRS 13 'Fair Value Measurement' defined fair value hierarchy. This hierarchy is based on the inputs to the fair value measurement and reflects the lowest level input that is significant to that measurement.

All assets and liabilities held at fair value are classified as fair value through profit or loss, except for \$266 million of financial assets classified as available-for-sale at 31 December 2022 (31 December 2021: \$909 million), all of which (31 December 2021: \$683 million) related to the Group's retained interest in Jackson's equity securities. All assets and liabilities held at fair value are measured on a recurring basis. As of 31 December 2022, the Group did not have any financial instruments that are measured at fair value on a non-recurring basis.

Financial instruments at fair value

	31 Dec 2022 \$m			Total
	Level 1	Level 2	Level 3	
	Quoted prices (unadjusted) in active markets	Valuation based on significant observable market inputs note (i)	Valuation based on significant unobservable market inputs note (ii)	
Loans	–	447	3	450
Equity securities and holdings in collective investment schemes	49,725	7,130	824	57,679
Debt securities	57,215	19,736	38	76,989
Derivative assets	82	487	–	569
Derivative liabilities	(778)	(223)	–	(1,001)
Total financial investments, net of derivative liabilities	106,244	27,577	865	134,686
Investment contract liabilities without discretionary participation features	–	(741)	–	(741)
Net asset value attributable to unit holders of consolidated investment funds	(4,193)	–	–	(4,193)
Total financial instruments at fair value	102,051	26,836	865	129,752
Percentage of total (%)	78%	21%	1%	100%

Analysed by business type:

Financial investments net of derivative liabilities, at fair value				
With-profits	65,880	14,605	748	81,233
Unit-linked	21,319	1,851	4	23,174
Non-linked shareholder-backed business	19,045	11,121	113	30,279
Total financial investments net of derivative liabilities, at fair value	106,244	27,577	865	134,686
Percentage of total (%)	78%	21%	1%	100%
Total financial investments net of derivative liabilities, at fair value	106,244	27,577	865	134,686
Other financial liabilities at fair value	(4,193)	(741)	–	(4,934)
Total financial instruments at fair value	102,051	26,836	865	129,752

	31 Dec 2021 \$m			Total
	Level 1	Level 2	Level 3	
	Quoted prices (unadjusted) in active markets	Valuation based on significant observable market inputs note (i)	Valuation based on significant unobservable market inputs note (ii)	
Loans	–	616	5	621
Equity securities and holdings in collective investment schemes	54,107	6,917	577	61,601
Debt securities	76,049	22,987	58	99,094
Derivative assets	359	122	–	481
Derivative liabilities	(146)	(116)	–	(262)
Total financial investments, net of derivative liabilities	130,369	30,526	640	161,535
Investment contract liabilities without discretionary participation features	–	(814)	–	(814)
Net asset value attributable to unit holders of consolidated investment funds	(5,618)	(46)	–	(5,664)
Total financial instruments at fair value	124,751	29,666	640	155,057
Percentage of total (%)	81%	19%	0%	100%

Analysed by business type:

Financial investments net of derivative liabilities, at fair value				
With-profits	82,489	15,438	506	98,433
Unit-linked	24,024	2,343	5	26,372
Non-linked shareholder-backed business	23,856	12,745	129	36,730
Total financial investments net of derivative liabilities, at fair value	130,369	30,526	640	161,535
Percentage of total (%)	81%	19%	0%	100%
Total financial investments net of derivative liabilities, at fair value	130,369	30,526	640	161,535
Other financial liabilities at fair value	(5,618)	(860)	–	(6,478)
Total financial instruments at fair value	124,751	29,666	640	155,057

Notes

- (i) Of the total level 2 debt securities of \$19,736 million at 31 December 2022 (31 December 2021: \$22,987 million), \$37 million (31 December 2021: \$24 million) are valued internally.
- (ii) At 31 December 2022, the Group held \$865 million (31 December 2021: \$640 million) of net financial instruments at fair value within level 3. This represents less than 1 per cent of the total fair-valued financial assets, net of financial liabilities, for both years and comprises the following items:
 - Equity securities and holdings in collective investment schemes of \$824 million (31 December 2021: \$557 million) consisting primarily of property and infrastructure funds held by the participating funds, which are externally valued using the net asset value of the invested entities. Equity securities of \$1 million (31 December 2021: \$1 million) are internally valued, representing less than 0.1 per cent for all periods of the total fair-valued financial assets net of financial liabilities. Internal valuations are inherently more subjective than external valuations; and

- Other sundry individual financial instruments of a net asset of \$41 million (31 December 2021: net asset of \$63 million).

Of the net financial instruments of \$865 million at 31 December 2022 (31 December 2021: \$640 million) referred to above:

- A net asset of \$752 million (31 December 2021: \$511 million) is held by the Group's with-profits and unit-linked funds and therefore shareholders' profit and equity are not impacted by movements in the valuation of these financial instruments; and
- A net asset of \$113 million (31 December 2021: \$129 million) is held to support non-linked shareholder-backed business, of which \$111 million (31 December 2021: \$112 million) are primarily private equity investments and corporate bonds externally valued using the net asset value of the invested entities and external prices adjusted to reflect the specific known conditions relating to these bonds (eg distressed securities) and are therefore inherently less subjective than internal valuations. If the value of all these level 3 financial instruments decreased by 10 per cent, the change in valuation would be \$(11) million (31 December 2021: \$(13) million), which would reduce shareholders' equity by this amount before tax. All of this amount would pass through the income statement substantially as part of short-term fluctuations in investment returns outside of adjusted operating profit.

C3 Policyholder liabilities and unallocated surplus

C3.1 Policyholder liabilities and unallocated surplus by business type

(a) Movement in policyholder liabilities and unallocated surplus of with-profits funds

The items below represent the amount attributable to changes in policyholder liabilities and unallocated surplus of with-profits funds as a result of each of the components listed for the insurance operations of the Group. The policyholder liabilities shown include investment contracts without discretionary participation features (as defined in IFRS 4) and their full movement in the year. The items are shown gross of external reinsurance.

	With-profits business \$m	Shareholder-backed business		Total \$m
		Unit-linked liabilities \$m	Other business \$m	
At 1 Jan 2021	86,410	32,506	46,639	165,555
<i>Comprising:</i>				
– Policyholder liabilities on the balance sheet (excludes \$296,513 million from discontinued US operations)	81,193	25,433	38,107	144,733
– Unallocated surplus of with-profits funds on the balance sheet ^{note (i)}	5,217	–	–	5,217
– Group's share of policyholder liabilities relating to joint ventures and associates ^{note (ii)}	–	7,073	8,532	15,605
Premiums: ^{note (iii)}				
New business	1,990	3,038	2,172	7,200
In-force	7,096	2,406	5,286	14,788
	9,086	5,444	7,458	21,988
Surrenders ^{notes (iii)(iv)}	(844)	(3,326)	(734)	(4,904)
Maturities/deaths/other claim events	(2,116)	(215)	(1,123)	(3,454)
Net flows	6,126	1,903	5,601	13,630
Shareholders' transfers post-tax	(134)	–	–	(134)
Investment-related items and other movements ^{note (v)}	2,499	897	(3,505)	(109)
Foreign exchange translation differences ^{note (vi)}	(899)	(550)	(239)	(1,688)
At 31 Dec 2021/1 Jan 2022	94,002	34,756	48,496	177,254
<i>Comprising:</i>				
– Policyholder liabilities on the balance sheet	88,618	25,651	37,646	151,915
– Unallocated surplus of with-profits funds on the balance sheet ^{note (i)}	5,384	–	–	5,384
– Group's share of policyholder liabilities relating to joint ventures and associates ^{note (ii)}	–	9,105	10,850	19,955
Premiums: ^{note (iii)}				
New business	2,244	1,838	2,697	6,779
In-force	5,809	2,404	5,623	13,836
	8,053	4,242	8,320	20,615
Surrenders ^{notes (iii)(iv)}	(1,233)	(2,763)	(677)	(4,673)
Maturities/deaths/other claim events	(2,103)	(200)	(1,712)	(4,015)
Net flows	4,717	1,279	5,931	11,927
Shareholders' transfers post-tax	(158)	–	–	(158)
Investment-related items and other movements ^{note (v)}	(20,677)	(2,802)	(14,623)	(38,102)
Foreign exchange translation differences ^{note (vi)}	(197)	(1,836)	(2,181)	(4,214)
At 31 Dec 2022	77,687	31,397	37,623	146,707
<i>Comprising:</i>				
– Policyholder liabilities on the balance sheet	74,192	22,842	25,229	122,263
– Unallocated surplus of with-profits funds on the balance sheet ^{note (i)}	3,495	–	–	3,495
– Group's share of policyholder liabilities relating to joint ventures and associates ^{note (ii)}	–	8,555	12,394	20,949
Average policyholder liability balances ^{note (vii)}				
2022	81,405	33,076	43,060	157,541
2021	84,905	33,631	47,568	166,104

Notes

- Unallocated surplus of with-profits funds represents the excess of assets over policyholder liabilities, determined in accordance with the Group's accounting policies, that have yet to be appropriated between policyholders and shareholders for the Group's with-profits funds in Hong Kong and Malaysia. In Hong Kong, the unallocated surplus includes the shareholders' share of expected future bonuses, with the expected policyholder share being included in policyholder liabilities. Any excess of assets over liabilities and amounts expected to be paid out by the fund on future bonuses is also included in the unallocated surplus.
- The Group's investments in joint ventures and associates are accounted for on an equity method and the Group's share of the policyholder liabilities as shown above relate to the life business of CPL, India and the Takaful business in Malaysia.

- (iii) The analysis includes the impact of premiums, claims and investment movements on policyholders' liabilities. The impact does not represent premiums, claims and investment movements as reported in the income statement. For example, premiums shown above are after any deductions for fees/charges; claims (surrenders, maturities, deaths and other claim events) shown above represent the policyholder liabilities provision released rather than the claims amount paid to the policyholder. The analysis also includes net flows of the Group's insurance joint ventures and associate.
- (iv) The rate of surrenders for shareholder-backed business (expressed as a percentage of opening policyholder liabilities) is 4.1 per cent in 2022 (2021: 5.1 per cent).
- (v) Investment-related items and other movements in 2022 primarily represents the effects of higher interest rates on the discount rates applied in the measurement of the policyholder liabilities, together with bond losses due to rising interest rates and lower level of investment returns from equities following the falls in equity markets, primarily in Hong Kong and Singapore with profits-fund. Other business also includes the effect of the early adoption of the Risk-Based Capital Regime in Hong Kong as discussed in note C3.2 below.
- (vi) Movements in the year have been translated at the average exchange rates for the year. The closing balance has been translated at the closing spot rates as at 31 December. Differences upon retranslation are included in foreign exchange translation differences.
- (vii) Average policyholder liabilities have been based on opening and closing balances, adjusted for any acquisitions, disposals and other relevant corporate transactions arising in the year, and exclude unallocated surplus of with-profits funds.

(b) Duration of policyholder liabilities

The table below shows the carrying value of policyholder liabilities and the maturity profile of the cash flows on a discounted basis, taking account of expected future premiums and investment returns:

	31 Dec 2022 \$m	31 Dec 2021 \$m
Policyholder liabilities	122,263	151,915
Expected maturity:	31 Dec 2022 %	31 Dec 2021 %
0 to 5 years	22	20
5 to 10 years	18	18
10 to 15 years	14	15
15 to 20 years	11	12
20 to 25 years	10	10
Over 25 years	25	25

C3.2 Reconciliation of gross and reinsurers' share of policyholder liabilities and unallocated surplus

Further analysis of the movement in the year of the Group's gross contract liabilities, reinsurers' share of insurance contract liabilities and unallocated surplus of with-profits funds (excluding those held by joint ventures and associates) is provided below:

	Gross insurance contract liabilities \$m	Reinsurers' share of insurance contract liabilities \$m	Investment contract liabilities \$m	Unallocated surplus of with-profits funds \$m
At 1 Jan 2021	(436,787)	46,595	(4,459)	(5,217)
Removal of discontinued US operations ^{note (i)}	293,325	(35,232)	3,188	–
Income (expense) included in the income statement ^{notes (i),(iii)}	(9,082)	(1,552)	189	(202)
Other movements ^{note (ii)}	–	–	(75)	–
Foreign exchange translation differences	1,789	(58)	(3)	35
Balance at 31 Dec 2021/1 Jan 2022	(150,755)	9,753	(1,160)	(5,384)
Income (expense) included in the income statement ^{notes (i),(iii)}	27,252	(6,908)	88	1,868
Other movements ^{note (ii)}	–	–	(26)	–
Foreign exchange translation differences	2,290	(38)	48	21
At 31 Dec 2022	(121,213)	2,807	(1,050)	(3,495)

Notes

- (i) The total charge for benefits and claims shown in the income statement comprises the amounts shown as 'Income (expense) included in the income statement' in the table above together with claims paid of \$(9,343) million in the year (2021: \$(8,845) million) and claim amounts attributable to reinsurers of \$740 million (2021: \$581 million). Claims incurred, net of reinsurance, shown in the segment analysis of benefits and claims items below include claims paid and movement in claims outstanding payables, net of reinsurance, in the year.
- (ii) Other movements include premiums received and claims paid on investment contracts without discretionary participating features, which are taken directly to the statement of financial position in accordance with IAS 39.
- (iii) The 2021 movement in the gross contract liabilities included \$160 million for the impact of a change to allow for illiquidity premium in the calculation of the valuation interest rate (VIR) used to value long-term insurance liabilities in Thailand. The 2022 movement in the gross contract liabilities and reinsurers' share of insurance contract liabilities included the impact from the early adoption of the Hong Kong Risk-Based Capital Regime as discussed below.

The segmental analysis of the total charge for benefit and claims and movement in unallocated surplus, net of reinsurance in the income statement is shown below. The CPL segment is a joint venture accounted for using the equity method under IFRS, with the Group's share of its results net of related tax presented in a single line within the Group's profit before tax, and therefore not shown in the analysis of benefit and claims items below.

	2022 \$m					Total segment
	Hong Kong	Indonesia	Malaysia	Singapore	Growth markets and other	
Claims incurred, net of reinsurance	(2,033)	(1,228)	(1,070)	(2,718)	(1,768)	(8,817)
Decrease in policyholder liabilities, net of reinsurance	15,643	270	(135)	3,189	1,679	20,646
Movement in unallocated surplus of with-profits funds	1,815	–	53	–	–	1,868
Benefits and claims and movement in unallocated surplus, net of reinsurance	15,425	(958)	(1,152)	471	(89)	13,697

	2021 \$m					Total segment
	Hong Kong	Indonesia	Malaysia	Singapore	Growth markets and other	
Claims incurred, net of reinsurance	(1,687)	(1,184)	(1,015)	(3,037)	(1,590)	(8,513)
(Increase) decrease in policyholder liabilities, net of reinsurance	(6,088)	167	(260)	(2,856)	(1,159)	(10,196)
Movement in unallocated surplus of with-profits funds	(250)	–	48	–	–	(202)
Benefits and claims and movement in unallocated surplus, net of reinsurance	(8,025)	(1,017)	(1,227)	(5,893)	(2,749)	(18,911)

Hong Kong Risk-Based Capital Regime

In April 2022, the Group's Hong Kong life business (PHKL) received approval from the Hong Kong Insurance Authority to early adopt the Hong Kong Risk-Based Capital (HK RBC) regime with effect from 1 January 2022. In light of this development and, given that the measurement technique set out within the local regulatory basis has been applied by PHKL to calculate IFRS liabilities, the Group has refined the reserving methodology of PHKL by reference to the method applied under the new HK RBC regime.

Under the basis previously applied, liabilities of non-participating business were generally determined on a net premium valuation basis to determine the future policyholder benefit provisions, subject to minimum floors. Using the principles underpinning the HK RBC regime, the IFRS reserving basis has been refined to one that is based on a gross premium valuation basis (including an allowance for the uncertainty of non-hedgeable risks), subject to minimum floors. Depending on the product, the minimum floor is set at the policyholder's asset share or guaranteed cash surrender value or at a constraint that on day one no negative reserve exists at a product level. This new measurement technique better estimates the liability and brings the estimation basis for PHKL more in line with that used by the Group's other insurance operations. This change of estimate has reduced policyholder liabilities (net of reinsurance) and increased profit before tax for 2022 by \$945 million.

There has been no change to the reserving basis for with-profits liabilities, which under the Group's accounting policy are valued under the realistic basis in accordance with the requirements of the 'grandfathered' UK standard FRS 27 'Life Assurance'.

C4 Intangible assets

C4.1 Goodwill

Goodwill shown on the consolidated statement of financial position at 31 December 2022 represents amounts allocated to business units in respect of both acquired asset management and life businesses. There has been no impairment as at 31 December 2022 and 2021.

	2022 \$m	2021 \$m
Carrying value at 1 Jan	907	961
Exchange differences	(17)	(54)
Carrying value at 31 Dec	890	907

C4.2 Deferred acquisition costs and other intangible assets

	31 Dec 2022 \$m	31 Dec 2021 \$m
Shareholder-backed business:		
DAC related to insurance contracts as classified under IFRS 4	3,215	2,776
DAC related to investment management contracts, including life assurance contracts classified as financial instruments and investment management contracts under IFRS 4	39	39
DAC related to insurance and investment contracts	3,254	2,815
Distribution rights	3,630	3,782
Present value of acquired in-force policies for insurance contracts as classified under IFRS 4	17	28
Other intangibles	209	184
Present value of acquired in-force and other intangibles	3,856	3,994
Total of DAC and other intangible assets attributable to shareholders	7,110	6,809
Other intangible assets, including computer software, attributable to with-profits funds	45	49
Total of deferred acquisition costs and other intangible assets	7,155	6,858

Movement in DAC and other intangible assets attributable to shareholders

	2022 \$m			2021 \$m	
	DAC	Distribution rights note (i)	PVIF and other intangibles notes (ii)(iii)	Total	Total
Balance at 1 Jan	2,815	3,782	212	6,809	20,275
Removal of discontinued US operations	–	–	–	–	(13,881)
Additions	1,002	206	76	1,284	1,185
Amortisation to the income statement	(475)	(301)	(50)	(826)	(651)
Disposals and transfers	–	–	(5)	(5)	(7)
Exchange differences and other movements	(88)	(57)	(7)	(152)	(112)
Balance at 31 Dec	3,254	3,630	226	7,110	6,809

Notes

- (i) Distribution rights relate to amounts that have been paid or have become unconditionally due for payment as a result of past events in respect of the bancassurance partnership arrangements for the bank distribution of Prudential's insurance products for a fixed period of time. The distribution rights amounts are amortised on a basis to reflect the pattern in which the future economic benefits are expected to be consumed by reference to new business production levels.
- (ii) All of the net PVIF balances relate to insurance contracts. The PVIF attaching to investment contracts have been fully amortised.
- (iii) Other intangibles comprise other intangible assets such as software rights. Software rights include additions of \$58 million, amortisation of \$24 million, disposals of \$(3) million, foreign exchange of \$(7) million and closing balance at 31 December 2022 of \$138 million (31 December 2021: \$114 million).

C5 Borrowings

C5.1 Core structural borrowings of shareholder-financed businesses

	31 Dec 2022 \$m	31 Dec 2021 \$m
Subordinated debt:		
US\$1,000m 5.25% Notes ^{note (i)}	–	1,000
US\$725m 4.375% Notes ^{note (ii)}	–	725
US\$750m 4.875% Notes	750	748
€20m Medium Term Notes 2023	21	23
£435m 6.125% Notes 2031	520	584
US\$1,000m 2.95% Notes 2033	995	995
Senior debt: ^{note (iii)}		
£300m 6.875% Notes 2023 ^{note (iv)}	361	404
£250m 5.875% Notes 2029	281	313
US\$1,000m 3.125% Notes 2030	987	985
US\$350m 3.625% Notes 2032 ^{note (v)}	346	–
Bank loans:		
US\$350m Loan 2024 ^{note (v)}	–	350
Total core structural borrowings of shareholder-financed businesses	4,261	6,127

Notes

- (i) The US\$1,000 million notes were redeemed on 20 January 2022 using the proceeds from the issuance of ordinary shares during 2021 as discussed in note C8.
- (ii) The US\$725 million notes were redeemed on 20 January 2022 using the proceeds from the US\$1,000 million subordinated debt issued in November 2021.
- (iii) The senior debt ranks above subordinated debt in the event of liquidation.
- (iv) The £300 million notes were redeemed on 20 January 2023.
- (v) In March 2022, the Company issued US\$350 million 3.625 per cent senior debt maturing on 24 March 2032 with proceeds, net of costs, of US\$346 million, which was used to redeem the US\$350 million bank loan in May 2022.

C5.2 Operational borrowings

	31 Dec 2022 \$m	31 Dec 2021 \$m
Shareholder-financed business:		
Borrowings in respect of short-term fixed income securities programmes – commercial paper	501	500
Lease liabilities under IFRS 16	185	209
Other borrowings	11	10
Operational borrowings attributable to shareholder-financed businesses	697	719
With-profits business:		
Lease liabilities under IFRS 16	114	138
Other borrowings	4	4
Operational borrowings attributable to with-profits businesses	118	142
Total operational borrowings	815	861

C6 Risk and sensitivity analysis

Group overview

The Group's risk framework and the management of risks attaching to the Group's consolidated financial statements including financial assets, financial liabilities and insurance liabilities, together with the inter-relationship with the management of capital, have been included in the Risk review report.

The financial and insurance assets and liabilities on the Group's statement of financial position are, to varying degrees, subject to market and insurance risk and other changes of experience assumptions that may have a material effect on IFRS basis profit or loss and shareholders' equity. The market and insurance risks and also ESG-related risks, including how they affect Group's operations and how these are managed are discussed in the Risk review report referred to above. The ESG-related risks discussed in the Risk review report include in particular the potential long-term impact of environmental risks associated with climate change (including physical and transition risks) on the Group's investments and liabilities.

The most significant market and credit risks that the IFRS shareholders' profit or loss and shareholders' equity for the Group's life assurance business are sensitive to, are shown in the following tables. The distinction between direct and indirect exposure is not intended to indicate the relative size of the sensitivity. In addition, insurance businesses are sensitive to mortality and/or morbidity risk as well as persistency risk depending on the products sold.

Type of business	Market and credit risk
With-profits business	Net neutral direct exposure (indirect exposure to investment performance, which is subject to smoothing through declared bonuses)
Unit-linked business	Net neutral direct exposure (indirect exposure to investment performance, through asset management fees)
Non-participating business	Asset/liability mismatch risk which results in sensitivity to interest rates and credit spreads, particularly for operations where the insurance liability basis is sensitive to current market movements Profit and shareholders' equity are also sensitive to the impact of current market movements on assets held in excess of non-participating policyholder liabilities Indirect exposure to investment performance through policyholder charges and guarantees in some cases

Sensitivity analyses of IFRS shareholders' equity to key market and other risks for the insurance operations are provided in section C6.1 below. The sensitivity analyses provided show the effect on shareholders' equity to changes in the relevant risk variables, all of which are considered to be reasonably possible at the relevant balance sheet date.

The sensitivity of the Group's Eastspring and central operations to market risks is discussed in section C6.2.

The Group benefits from diversification benefits achieved through the geographical spread of the Group's operations and, within those operations, through a broad mix of product types. These benefits are not reflected in the simplified sensitivities below.

Relevant correlation factors include:

- Correlation across geographic regions for both financial and non-financial risk factors; and
- Correlation across risk factors for mortality and morbidity, expenses, persistency and other risks.

The geographical diversity of the Group's business means that it has some exposure to the risk of foreign exchange rate fluctuations. The Group has no exposure to currency fluctuation from business units that operate in USD, or currencies pegged to the USD (such as HKD), and reduced exposure to currencies partially managed to the USD within a basket of currencies (such as SGD). Sensitivities to exchange rate movements in the Group's key markets are therefore expected to be limited.

C6.1 Insurance operations

(a) Sensitivity to key market risks

The table below shows the sensitivity of shareholders' equity as at 31 December 2022 and 2021 for insurance operations to the following market risks:

- 1 per cent increase and 0.5 per cent decrease in interest rates (based on local government bond yields at the valuation date) in isolation and subject to a floor of zero; and
- Instantaneous 10 per cent rise and 20 per cent fall in the market value of equity and property assets. The equity risk sensitivity analysis assumes that all equity indices fall by the same percentage.

The sensitivities below only allow for limited management actions such as changes to policyholder bonuses, where applicable. If the economic conditions set out in the sensitivities persisted, the financial impacts may differ to the instantaneous impacts shown below. Given the continuous risk management processes in place, management could take additional actions to help mitigate the impact of these stresses, including (but not limited to) rebalancing investment portfolios, increased use of reinsurance, repricing of in-force benefits, changes to new business pricing and the mix of new business being sold.

Where liabilities are valued using historic average rates for a short period (ie up to three years), the valuation interest rates are adjusted to assume a parallel increase or decrease in the interest rates used in the averaging approach to reflect the impact that could be seen in the near term. Credit risk sensitivities, such as the impact on the value of debt securities and policyholder liabilities from movements in credit spreads are not presented below. A one-letter credit downgrade in isolation (ie ignoring any consequential change in valuation) would not have a material impact on IFRS profit or shareholders' equity.

Net effect on shareholders' equity from insurance operations	31 Dec 2022 \$m	31 Dec 2021 \$m
Shareholders' equity of insurance operations	14,407	14,289
Sensitivity to key market risks: ^{note}		
Interest rates and consequential effects – 1% increase	(386)	(796)
Interest rates and consequential effects – 0.5% decrease	(122)	137
Equity/property market values – 10% rise	190	372
Equity/property market values – 20% fall	(729)	(787)

Note

The effect from the changes in interest rates or equity and property prices above, if they arose, would impact profit after tax for the insurance operations and would mostly be recorded within short-term fluctuations in investment returns. The impact on profit after tax would be the same as the net effect on shareholders' equity. Changes to the results of the Africa insurance operations from interest rate or equity rate changes would not materially impact the Group.

The degree of sensitivity of the results of the non-linked shareholder-backed business of the insurance operations to movements in interest rates depends upon the degree to which the liabilities under the 'grandfathered' IFRS 4 measurement basis reflects market interest rates from period to period. This varies by business unit.

For example:

- Taiwan and India businesses apply US GAAP, for which the results can be more sensitive as the effect of interest rate movements on the backing investments may not be offset by liability movements; and
- The level of options and guarantees in the products written in a particular business unit will affect the degree of sensitivity to interest rate movements.

The sensitivity of the insurance operations presented as a whole at a given point in time will also be affected by a change in the relative size of the individual businesses.

The 'increase of 1%' sensitivities reflect that, for many operations the impact of interest rate movements on the value of government and corporate bond investments dominates, namely bonds are expected to decrease in value as interest rates increase to a greater extent than the offsetting decrease in liabilities from a corresponding change in discount rates. This arises because the discount rate in some operations does not fluctuate in line with interest rate movements. Under a 0.5% decrease interest rate scenario although in the majority of operations asset gains exceed the increase in liabilities, there are a number of operations where the increase in liabilities dominates, driven by an increase in the value of policyholder guarantees, hence this results in an overall small negative impact of an instantaneous decrease of rates at 31 December 2022.

Movements in equities backing with-profits and unit-linked business have been excluded from the equity and property sensitivities as they are generally matched by an equal movement in insurance liabilities (including unallocated surplus of with-profits funds). The impact on changes to future profitability as a result of changes to the asset values within unit-linked or with-profits funds have not been included in the instantaneous sensitivity above. The estimated sensitivities shown above include equity and property investments held by the Group's joint venture and associate businesses. Generally, changes in equity and property investment values held outside unit-linked and with-profits funds are not directly offset by movements in non-linked policyholder liabilities. For Hong Kong's non-participating business, liabilities largely reflect asset shares post the adoption of HK RBC and therefore the consequential movements in equities are offset by movements in policyholder liabilities.

(b) Sensitivity to insurance risk

For insurance operations, adverse persistency experience can impact the IFRS profitability of certain types of business written. This risk is managed at a business unit level through regular monitoring of experience and the implementation of management actions as necessary.

These actions could include product enhancements, increased management focus on premium collection, as well as other customer retention efforts. The potential financial impact of lapses is often mitigated through the specific features of the products, eg surrender charges, or through the availability of premium holiday or partial withdrawal policy features. The reserving basis is generally such that a change in lapse assumptions has an immaterial effect on immediate profitability.

Many of the business units are exposed to mortality and morbidity risk and a provision is made within policyholder liabilities to cover the potential exposure. If all these assumptions were strengthened by 5 per cent then it is estimated that profit after tax and shareholders' equity would decrease by approximately \$(101) million (2021: \$(108) million), before consideration of other reserving adjustments eg a corresponding release of margin for prudence. Weakening these assumptions by 5 per cent would have a similar opposite impact.

C6.2 Eastspring and central operations

The profit for the year of Eastspring is sensitive to the level of assets under management, as this significantly affects the value of management fees earned by the business in the current and future periods. Assets under management will rise and fall as market conditions change, with a consequential impact on profitability.

Eastspring holds a small amount of investments direct on its balance sheet, including investments in respect of seeding capital into retail funds it sells to third parties (see note C1). Eastspring's profit will therefore have some exposure to the market movements of these investments.

At 31 December 2022, the Group's central operations held a 9.2 per cent (31 December 2021: 18.4 per cent) economic interest in the equity securities of Jackson. These equity securities are listed on the New York Stock Exchange and classified as available-for-sale with a fair value of \$266 million at 31 December 2022 (31 December 2021: \$683 million). If the value of these securities decreased by 20 per cent, the change in valuation would be \$(53) million (31 December 2021: \$(137) million), which would reduce shareholders' equity by this amount before tax, all of which would pass through other comprehensive income outside of the profit or loss.

C7 Tax assets and liabilities

C7.1 Current tax

At 31 December 2022, of the \$18 million (31 December 2021: \$20 million) current tax recoverable, the majority is expected to be recovered within 12 months after the reporting period.

At 31 December 2022, the current tax liability from operations of \$208 million (31 December 2021: \$185 million) includes \$79 million (31 December 2021: \$42 million) of provisions for uncertain tax matters. Further detail is provided in note B3.2.

C7.2 Deferred tax

The statement of financial position contains the following deferred tax assets and liabilities in relation to:

	2022 \$m			
	Balance at 1 Jan	Movement in income statement	Other movements including foreign exchange movements	Balance at 31 Dec
Deferred tax assets				
Unrealised losses or gains on investments	3	317	(178)	142
Balances relating to investment and insurance contracts	34	1	(33)	2
Short-term temporary differences	162	(15)	(12)	135
Unused tax losses	67	(32)	(4)	31
Total deferred tax assets	266	271	(227)	310
Deferred tax liabilities				
Unrealised losses or gains on investments	(242)	44	185	(13)
Balances relating to investment and insurance contracts	(2,125)	(228)	47	(2,306)
Short-term temporary differences	(495)	(81)	23	(553)
Total deferred tax liabilities	(2,862)	(265)	255	(2,872)

	2021 \$m				
	Balance at 1 Jan	Removal of discontinued US operations	Movement in income statement	Other movements including foreign exchange movements	Balance at 31 Dec
Deferred tax assets					
Unrealised losses or gains on investments	–	–	3	–	3
Balances relating to investment and insurance contracts	87	–	(16)	(37)	34
Short-term temporary differences	4,662	(4,513)	15	(2)	162
Unused tax losses	109	(29)	(14)	1	67
Total deferred tax assets	4,858	(4,542)	(12)	(38)	266
Deferred tax liabilities					
Unrealised losses or gains on investments	(1,063)	691	127	3	(242)
Balances relating to investment and insurance contracts	(1,765)	–	(433)	73	(2,125)
Short-term temporary differences	(3,247)	2,832	(87)	7	(495)
Total deferred tax liabilities	(6,075)	3,523	(393)	83	(2,862)

C8 Share capital, share premium and own shares

	2022			2021		
	Number of ordinary shares	Share capital \$m	Share premium \$m	Number of ordinary shares	Share capital \$m	Share premium \$m
Issued shares of 5p each fully paid						
Balance at 1 Jan	2,746,412,265	182	5,010	2,609,489,702	173	2,637
Shares issued under share-based schemes	3,257,115	–	2	6,142,213	–	8
Shares issued under Hong Kong public offer and international placing in 2021 ^{note}	–	–	(6)	130,780,350	9	2,365
Balance at 31 Dec	2,749,669,380	182	5,006	2,746,412,265	182	5,010

Note

In October 2021, Prudential completed the issuance of new ordinary shares on the Hong Kong Stock Exchange, resulting in net proceeds and an increase in shareholders' equity of \$2.4 billion. The proceeds from this issuance were used to redeem high coupon debt instruments of US\$1.3 billion in total in December 2021 and US\$1.0 billion in January 2022, with the remainder used to increase Prudential's central stock of liquidity, as originally intended and disclosed in Prudential's prospectus for the issuance.

Options outstanding under save as you earn schemes to subscribe for shares at each year end shown below are as follows:

	Number of shares to subscribe for	Share price range		Exercisable by year
		from	to	
31 Dec 2022	1,858,292	737p	1,455p	2028
31 Dec 2021	2,022,535	964p	1,455p	2027

Transactions by Prudential plc and its subsidiaries in Prudential plc shares

The Group buys and sells Prudential plc shares ('own shares') in relation to its employee share schemes. The cost of own shares of \$270 million at 31 December 2022 (31 December 2021: \$267 million) is deducted from retained earnings. The Company has established trusts to facilitate the delivery of shares under employee incentive plans. At 31 December 2022, 12.6 million (31 December 2021: 11.7 million) Prudential plc shares with a market value of \$174 million (31 December 2021: \$201 million) were held in such trusts, all of which are for employee incentive plans. The maximum number of shares held during the year was 13.0 million which was in September 2022.

Within the trusts, shares are notionally allocated by business unit reflecting the employees to which the awards were made.

The trusts purchased the following number of shares in respect of employee incentive plans:

	Number of shares	2022			Cost \$	Number of shares	2021			Cost \$
		Share price		Cost \$			Share price		Cost \$	
		Low £	High £				Low £	High £		
January	63,019	12.93	13.14	1,120,889	74,817	14.12	14.48	1,443,158		
February	65,223	12.43	12.49	1,098,500	69,865	12.42	12.96	1,251,067		
March	73,193	10.37	10.96	1,055,044	55,545	14.91	15.49	1,189,784		
April	4,024,410	10.64	11.29	58,880,934	2,438,884	15.45	15.55	52,512,098		
May	460,897	8.95	9.05	5,288,807	52,989	15.82	15.96	1,183,836		
June	196,180	10.13	11.70	2,402,464	121,472	14.62	14.89	2,508,974		
July	87,338	10.06	10.15	1,052,807	60,473	13.62	13.78	1,145,078		
August	86,540	9.81	9.95	1,029,843	57,004	14.20	14.37	1,128,450		
September	90,843	9.24	9.73	1,000,619	312,226	14.89	15.24	7,961,098		
October	175,837	9.06	9.30	1,675,634	436,771	14.48	14.99	8,410,274		
November	79,326	8.99	9.04	837,944	53,867	14.77	14.83	1,072,374		
December	95,680	10.63	10.74	1,240,296	76,926	13.20	13.24	1,355,942		
Total	5,498,486			76,683,781	3,810,839			81,162,133		

The cost in USD shown has been calculated from the share prices in pounds sterling using the monthly average exchange rate for the month in which those shares were purchased.

A portion of the share purchases in respect of employee incentive plans as shown in the table above were made on the Hong Kong Stock Exchange with the remainder being made on the London Stock Exchange.

Other than set out above, the Group did not purchase, sell or redeem any Prudential plc listed securities during 2022.

D Other information

D1 Corporate transactions

D1.1 Gain (loss) attaching to corporate transactions

	2022 \$m	2021 \$m
Gain (loss) attaching to corporate transactions as shown separately on the Consolidated income statement ^{note}	55	(35)
Loss arising on reinsurance transaction undertaken by the Hong Kong business	(44)	(59)
Total gain (loss) attaching to corporate transactions ^{note B1.1}	11	(94)

Note

The gain (loss) attaching to corporate transactions largely comprises a gain of \$62 million (2021: \$23 million) from the sale of shares relating to the Group's retained interest in Jackson post the demerger. Other corporate transactions in 2021 largely represent costs associated with the demerger of Jackson.

D1.2 Discontinued US operations

On 13 September 2021, the Group completed the separation of its US operations (Jackson) through a demerger. In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the US operations were classified as discontinued. The 2021 income statement included the results of Jackson up to 13 September 2021, the date of demerger.

The retained interest in Jackson is reported within the Consolidated statement of financial position as a financial investment at fair value and is included in 'Unallocated to a segment (central operations)' for segmental analysis. This investment has been classified as available-for-sale under IAS 39. During 2022, transactions reduced the Group's holding to 9.2 per cent (both voting and economic interest) at 31 December 2022 (31 December 2021: 18.4 per cent economic interest with 18.5 per cent voting interest). The fair value of the Group's holding at 31 December 2022 was \$266 million (31 December 2021: \$683 million).

The results for the discontinued US operations presented in the consolidated financial statements up to the demerger in September 2021 are analysed below.

(a) Income statement

	2021 \$m
Total revenue, net of reinsurance	45,972
Total charge, net of reinsurance	(43,655)
Profit before tax	2,317
Tax charge	(363)
Profit after tax	1,954
Remeasurement to fair value ^{note (i)}	(8,259)
Cumulative valuation movements on available-for-sale debt securities, net of related tax and change in DAC, and net investment hedges recycled from other comprehensive income ^{note (ii)}	1,278
Loss for the year	(5,027)
Attributable to:	
Equity holders of the Company	(4,234)
Non-controlling interests	(793)
Loss for the year	(5,027)

Notes

- (i) The loss on remeasurement to fair value on demerger was recognised in accordance with IFRIC 17 'Distributions of non-cash assets to owners' with the fair value determined with reference to the opening quoted price of Jackson shares on the New York Stock Exchange as at the date of demerger on 13 September 2021.
- (ii) In accordance with IFRS, as a result of the demerger of Jackson, accumulated balances previously recognised through other comprehensive income relating to financial instruments held by Jackson classified as available-for-sale and historical net investment hedges were recycled from other comprehensive income to the results of discontinued operations in the Consolidated income statement. Total shareholders' equity is unchanged as a result of this recycling.

(b) Total comprehensive income

	2021 \$m
Loss for the year	(5,027)
Other comprehensive loss:	
Valuation movements on available-for-sale debt securities, net of related tax and change in DAC	(763)
Cumulative valuation movements on available-for-sale debt securities, net of related tax and change in DAC, and net investment hedges recycled through profit or loss at the point of demerger	(1,278)
Other comprehensive loss for the year	(2,041)
Total comprehensive loss for the year	(7,068)
Attributable to:	
Equity holders of the Company	(6,283)
Non-controlling interests	(785)
Total comprehensive loss for the year	(7,068)

(c) Cash flows

	2021 \$m
Net cash flows from operating activities	(423)
Net cash flows from financing activities ^{note}	2,329
Cash divested upon demerger	(3,527)
Net decrease in cash and cash equivalents	(1,621)
Cash and cash equivalents at 1 Jan	1,621
Cash and cash equivalents at 31 Dec	—

Note

Financing activities in 2021 largely reflected the issuance of debt of \$2,350 million. No dividends were paid by Jackson during 2021 prior to demerger.

D2 Contingencies and related obligations

The Group is involved in various litigation and regulatory proceedings. While the outcome of such litigation and regulatory issues cannot be predicted with certainty, the Group believes that their ultimate outcome will not have a material adverse effect on the Group's financial condition, results of operations, or cash flows.

D3 Post balance sheet events

Dividends

The 2022 second interim dividend approved by the Board of Directors after 31 December 2022 is as described in note B5.

Debt redemption

On 20 January 2023 the Company redeemed senior debt instruments of £300 million, as described in note C5.1.

European Embedded Value (EEV) basis results

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Description of EEV basis reporting

The EEV basis results have been prepared in accordance with the EEV Principles issued by the European Insurance CFO Forum in 2016. All results are stated net of tax and converted using actual exchange rates (AER) unless otherwise stated. AER are actual historical exchange rates for the relevant accounting period. Constant exchange rate (CER) results are calculated by translating prior period results using current period foreign currency exchange rates, ie current period average rates for the income statement and current period closing rates for the balance sheet. Where appropriate, the EEV basis results include the effects of adoption of IFRS Standards.

The Directors are responsible for the preparation of the supplementary information in accordance with the EEV Principles. In preparing the EEV basis supplementary information, the Directors have satisfied themselves that the Group remains a going concern. Further information is provided in note A1 of the IFRS financial results.

EEV results highlights

	2022	2021			
	\$m	AER		CER	
		\$m	% change	\$m	% change
New business profit ^{note (ii)}	2,184	2,526	(14)%	2,443	(11)%
Annual premium equivalent (APE) ^{note (ii)}	4,393	4,194	5%	4,013	9%
New business margin (APE) (%)	50%	60%	(10)pp	61%	(11)pp
Present value of new business premiums (PVNBP)	22,406	24,153	(7)%	23,281	(4)%
Operating free surplus generated ^{notes (ii)(iii)}	2,193	2,071	6%	2,004	9%
EEV operating profit ^{notes (ii)(iv)}	3,952	3,543	12%	3,429	15%
EEV operating profit, net of non-controlling interests	3,923	3,515	12%	3,401	15%
Operating return on average EEV shareholders' equity, net of non-controlling interests (%)	9%	8%			
Closing EEV shareholders' equity, net of non-controlling interests	42,184	47,355	(11)%	46,256	(9)%
Closing EEV shareholders' equity, net of non-controlling interests per share (in cents)	1,534¢	1,725¢	(11)%	1,684¢	(9)%

Notes

- (i) The 2021 results above are for the Group's continuing operations only, excluding results from the discontinued US operations which were demerged in September 2021.
- (ii) Results are presented before deducting the amounts attributable to non-controlling interests. This presentation is applied consistently throughout this document, unless stated otherwise.
- (iii) Operating free surplus generated is for long-term and asset management businesses only, before restructuring and IFRS 17 implementation costs, centrally incurred costs and eliminations.
- (iv) Group EEV operating profit is stated after restructuring and IFRS 17 implementation costs, centrally incurred costs and eliminations.

European Embedded Value (EEV) basis results

Basis of preparation

IFRS profit for long-term business broadly reflects the aggregate of results on a traditional accounting basis. By contrast, EEV is a way of measuring the value of the in-force life insurance business. The value of future new business is excluded from the embedded value. The EEV Principles provide consistent definitions of the components of EEV, a framework for setting assumptions and an approach to the underlying methodology and disclosures. The EEV Principles were designed to provide guidance and common principles that could be understood by both users and preparers alongside prescribing a minimum level of disclosures to enable users to understand an entity's methodology, assumptions and key judgements as well as the sensitivity of an entity's EEV to key assumptions. Results prepared under the EEV Principles represent the present value of the shareholders' interest in the post-tax future profits (generally on a local statutory basis) expected to arise from the current book of long-term business, after sufficient allowance has been made for the aggregate risks in the business. The shareholders' interest in the Group's long-term business is the sum of the shareholders' total net worth and the value of in-force business.

For the purposes of preparing EEV results, insurance joint ventures and associates are included at the Group's proportionate share of their embedded value and not at their market value. Asset management and other non-insurance subsidiaries, joint ventures and associates are included in the EEV results at the Group's proportionate share of IFRS shareholders' equity, with central Group debt shown on a market value basis. Post the demerger of the Group's US operations (Jackson) in September 2021, the Group's retained interest in Jackson has been included at its fair value within other (central) operations. This is equivalent to its value within the Group's IFRS financial results. Further information is contained in note 5.

Key features of the Group's EEV methodology include:

- *Economic assumptions*: The projected post-tax profits assume a level of future investment return and are discounted using a risk discount rate. Both the risk discount rate and the investment return assumptions are updated at each valuation date to reflect current market risk-free rates, such that changes in market risk-free rates impact all projected future cash flows. Risk-free rates, and hence investment return assumptions, are based on observable market data, with current market risk-free rates assumed to remain constant throughout the projection, with no trending or mean reversion to longer-term assumptions. Different products will be sensitive to different assumptions, for example, participating products or products with guarantees are likely to benefit disproportionately from higher assumed investment returns.
- *Time value of financial options and guarantees*: Explicit quantified allowances are made for the time value of financial options and guarantees (TVOG). The TVOG is determined by weighting the probability of outcomes across a large number of different economic scenarios and is typically less applicable to health and protection business that generally contains more limited financial options or guarantees. At 31 December 2022, the TVOG is \$(151) million (31 December 2021: \$(784) million). The magnitude of the TVOG at 31 December 2022 would be approximately equivalent to a circa 3 basis point (31 December 2021: 10 basis point) increase in the weighted average risk discount rate.
- *Allowance for risk in the risk discount rates*: Risk discount rates are set equal to the risk-free rate at the valuation date plus product-specific allowances for market and non-market risks. Risks that are explicitly captured elsewhere, such as via the TVOG, are not included in the risk discount rates.

The allowance for market risk is based on a product-by-product assessment of the sensitivity of shareholder cash flows to varying market returns. This approach reflects the inherent market risk in each product group and results in lower risk discount rates for products where the majority of shareholder profit is uncorrelated to market risk and appropriately higher risk discount rates for products where there is greater market exposure for shareholders.

For example, for health and protection products, which represent 51 per cent of the value of in-force business and 43 per cent of new business profit, the major sources of shareholder profits are underwriting profits or fixed shareholder charges which have low market risk sensitivity. There is a lower proportion of health and protection than in prior periods largely as a result of higher interest rates, which is adverse on health and protection type products and positive impact on savings type products. New business profit is also impacted by the mix of business sold in the period.

The construct of UK-style with-profits or similar participating funds in some business units (representing 26 per cent of the value of in-force and 18 per cent of new business profit) reduce the market volatility of both policyholder and shareholder cash flows due to smoothed bonus declarations and for some markets the presence of an estate. Accordingly, 77 per cent of the value of in-force is products with low market risk sensitivity and this is reflected in the overall risk discount rate.

For unit-linked products where fund management charges fluctuate with the investment return, a portion of the profits will typically be more sensitive to market risk due to the higher proportion of equity-type assets in the investment portfolio resulting in a higher risk discount rate. This business represents 17 per cent of the value of in-force and 11 per cent of the value of new business profit which limits the impact on the overall risk discount rate. The remaining parts of the business (6 per cent of the value of in-force business and 28 per cent of the value of new business) relate to non-participating products not covered by the above.

The allowance for non-market risk comprises a base Group-wide allowance of 50 basis points plus additional allowances for emerging market risk where appropriate. At 31 December 2022, the total allowance for non-market risk is equivalent to a \$(2.8) billion (31 December 2021: \$(3.7) billion) reduction, or around (7) per cent (31 December 2021: (8) per cent) of the embedded value.

Hong Kong Risk-Based Capital regime

In April 2022, Prudential Hong Kong Limited (PHKL), the Group's 100 per cent owned life insurance subsidiary in Hong Kong received approval from the Hong Kong Insurance Authority (IA) to early adopt the Hong Kong Risk-Based Capital (HK RBC) regime with effect from 1 January 2022. This impacts PHKL's (and consequentially the Group's) capital position as described in note 1(i) within Additional unaudited financial information. Under the Group's EEV methodology, local regulatory and target capital requirements are the basis of estimating future shareholder cash flows and therefore the changes to the HK RBC framework will impact the Group's EEV, with effect from 1 January 2022, as discussed below. Comparatives have not been restated.

Adjustment to shareholders' equity at 1 January 2022

Long-term insurance business	Free surplus	Required capital	Net worth	Value of in-force business	Embedded value
As reported at 31 Dec 2021	5,960	3,230	9,190	35,456	44,646
Opening adjustment at 1 Jan 2022:					
HK RBC impact	1,360	2,853	4,213	(3,984)	229
Long-term insurance business as at 1 Jan 2022	7,320	6,083	13,403	31,472	44,875

The HK RBC framework requires liabilities to be valued on a best estimate basis and capital requirements to be risk based. As a result of applying this framework, the EEV net worth increased by \$4,213 million, reflecting the release of prudent regulatory margins previously included in liabilities, and a reduction in VIF. EEV free surplus excludes regulatory surplus that arises where HK RBC technical provisions are lower than policyholder asset shares or cash surrender values to more realistically reflect how the business is managed. The introduction of this flooring for PHKL reduces the increase to its free surplus that would have otherwise arisen. The impact therefore differs from the effect on Group GWS surplus as explained in note 1(i) of the Additional unaudited financial information.

Movement in Group EEV shareholders' equity

	2022 \$m			2021 \$m	
	Note	Insurance and asset management operations	Other (central) operations	Group total	Group total
Continuing operations:					
New business profit	1	2,184	-	2,184	2,526
Profit from in-force business	2	2,358	-	2,358	1,630
Long-term business		4,542	-	4,542	4,156
Asset management		234	-	234	284
Operating profit from long-term and asset management businesses		4,776	-	4,776	4,440
Other income (expenditure)	5	-	(542)	(542)	(723)
Operating profit (loss) before restructuring and IFRS 17 implementation costs		4,776	(542)	4,234	3,717
Restructuring and IFRS 17 implementation costs		(125)	(157)	(282)	(174)
Operating profit (loss) for the year		4,651	(699)	3,952	3,543
Short-term fluctuations in investment returns	2	(6,893)	19	(6,874)	(1,040)
Effect of changes in economic assumptions	2	(1,571)	-	(1,571)	412
(Loss) profit attaching to corporate transactions		(5)	62	57	(35)
Mark-to-market value movements on core structural borrowings	6	-	865	865	357
Non-operating results		(8,469)	946	(7,523)	(306)
(Loss) profit from continuing operations		(3,818)	247	(3,571)	3,237
Loss from discontinued US operations ^{note (i)}		-	-	-	(10,852)
(Loss) profit for the year		(3,818)	247	(3,571)	(7,615)
Non-controlling interests share of profit from continuing operations		(29)	-	(29)	(40)
Non-controlling interests share of loss from discontinued US operations		-	-	-	1,205
(Loss) profit for the year attributable to equity holders of the Company		(3,847)	247	(3,600)	(6,450)
Equity items from continuing operations:					
Foreign exchange movements on operations		(1,195)	-	(1,195)	(460)
Intra-group dividends and investment in operations ^{note (ii)}		(1,211)	1,211	-	-
Demerger dividend in specie from Jackson		-	-	-	(1,735)
Other external dividends		-	(474)	(474)	(421)
New share capital subscribed ^{note (iii)}		-	(4)	(4)	2,382
Other movements ^{note (iv)}		172	(299)	(127)	238
Equity items from discontinued US operations net of non-controlling interest		-	-	-	(206)
Net (decrease) increase in shareholders' equity		(6,081)	681	(5,400)	(6,652)
Shareholders' equity at beginning of year (as previously disclosed)		46,114	1,241	47,355	54,007
Effect of HK RBC		229	-	229	-
Shareholders' equity at beginning of year after adoption of HK RBC		46,343	1,241	47,584	54,007
Shareholders' equity at end of year		40,262	1,922	42,184	47,355
Contribution to Group EEV:					
At end of year:					
Long-term business	2	38,857	-	38,857	44,646
Asset management and other	5	643	1,922	2,565	1,931
Shareholders' equity, excluding goodwill attributable to equity holders		39,500	1,922	41,422	46,577
Goodwill attributable to equity holders		762	-	762	778
Shareholders' equity at end of year		40,262	1,922	42,184	47,355
At beginning of year:					
Long-term business	2	44,646	-	44,646	42,861
Asset management and other	5	690	1,241	1,931	(1,756)
Shareholders' equity, excluding goodwill attributable to equity holders		45,336	1,241	46,577	41,105
Goodwill attributable to equity holders		778	-	778	821
Total continuing operations (as previously disclosed)		46,114	1,241	47,355	41,926
Discontinued US operations		-	-	-	12,081
Shareholders' equity at beginning of year (as previously disclosed)		46,114	1,241	47,355	54,007

	2022		2021	
	Insurance and asset management operations	Other (central) operations	Group total	Group total
EEV shareholders' equity per share (in cents)^{note (v)}				
<u>At end of year:</u>				
Based on shareholders' equity, net of goodwill attributable to equity holders	1,437¢	70¢	1,507¢	1,696¢
Based on shareholders' equity at end of year	1,464¢	70¢	1,534¢	1,725¢
<u>At beginning of year:</u>				
Based on shareholders' equity, net of goodwill attributable to equity holders	1,651¢	45¢	1,696¢	1,576¢
Based on shareholders' equity at beginning of year:				
From continuing operations	1,680¢	45¢	1,725¢	1,607¢
From discontinued US operations	-	-	-	463¢

	2022		2021	
	Before non-controlling interests	After non-controlling interests	Basic earnings per share	Basic earnings per share
	\$m	\$m	cents	cents
EEV basis basic earnings per share in cents^{note (vi)}				
Based on operating profit from continuing operations	3,952	3,923	143.4¢	133.8¢
Based on (loss) profit for the year:				
From continuing operations	(3,571)	(3,600)	(131.6)¢	121.7¢
From discontinued US operations	-	-	-	(367.1)¢

Notes

- (i) Discontinued operations represent the Group's US business (Jackson) which was demerged in September 2021.
- (ii) Intra-group dividends represent dividends that have been declared in the year. Investment in operations reflects movements in share capital.
- (iii) New share capital subscribed in 2021 primarily represented the issuance of new ordinary shares on the Hong Kong Stock Exchange in October 2021.
- (iv) Other movements include reserve movements in respect of valuation movements on the retained interest in Jackson, share-based payments, treasury shares and intra-group transfers between operations that have no overall effect on the Group's shareholders' equity.
- (v) Based on the number of issued shares at 31 December 2022 of 2,750 million shares (31 December 2021: 2,746 million shares).
- (vi) Based on weighted average number of issued shares of 2,736 million shares in 2022 (2021: 2,628 million shares).

Movement in Group free surplus

Operating free surplus generation is the financial metric we use to measure the internal cash generation of our business operations and for our life operations is generally based on (with adjustments as discussed below) the capital regimes that apply locally in the various jurisdictions in which the Group operates. It represents amounts emerging from the in-force business during the year, net of amounts reinvested in writing new business. For asset management businesses, it equates to post-tax adjusted operating profit for the year.

For long-term business, free surplus is generally based on (with adjustments including recognition of certain intangibles and other assets that may be inadmissible on a regulatory basis) the excess of the regulatory basis net assets (EEV total net worth) over the EEV capital required to support the covered business. For shareholder-backed businesses, the level of EEV required capital has been based on the Group Prescribed Capital Requirements (GPCR) used in our GWS reporting as set out in note 8.1(e).

Adjustments are also made to enable free surplus to be a better measure of shareholders' resources available for distribution as described in the reconciliation to GWS surplus as disclosed in note I(i) of the Additional unaudited financial information. For asset management and other non-insurance operations (including the Group's central operations), free surplus is taken to be IFRS basis shareholders' equity, net of goodwill attributable to shareholders, with central Group debt recorded as free surplus to the extent that it is classified as capital resources under the Group's capital regime. Following the application of the GWS Framework, both subordinated and senior debt (excluding the amount issued in 2022) are treated as capital for the purposes of free surplus at 31 December 2022.

A reconciliation of EEV free surplus to the GWS shareholder capital surplus over GPCR is set out in note I(i) of the Additional unaudited financial information.

	Note	2022 \$m		2021 \$m	
		Insurance and asset management operations	Other (central) operations	Group total	Group total
Continuing operations:					
Expected transfer from in-force business		2,406	-	2,406	2,340
Expected return on existing free surplus		347	-	347	157
Changes in operating assumptions and experience variances		(227)	-	(227)	(173)
Operating free surplus generated from in-force long-term business	2	2,526	-	2,526	2,324
Investment in new business ^{note (ii)}	2	(567)	-	(567)	(537)
Long-term business		1,959	-	1,959	1,787
Asset management		234	-	234	284
Operating free surplus generated from long-term and asset management businesses		2,193	-	2,193	2,071
Other income (expenditure)		-	(542)	(542)	(723)
Restructuring and IFRS 17 implementation costs		(120)	(157)	(277)	(169)
Operating free surplus generated		2,073	(699)	1,374	1,179
Non-operating free surplus generated ^{note (iii)}		(2,040)	116	(1,924)	82
Free surplus generated from continuing operations		33	(583)	(550)	1,261
Free surplus generated from discontinued US operations ^{note (i)}		-	-	-	770
Free surplus generated for the year		33	(583)	(550)	2,031
Equity items from continuing operations:					
Net cash flows paid to parent company ^{note (iv)}		(1,304)	1,304	-	-
Demerger dividend in specie from Jackson		-	-	-	(1,735)
Other external dividends		-	(474)	(474)	(421)
Foreign exchange movements on operations		(316)	-	(316)	10
New share capital subscribed ^{note (v)}		-	(4)	(4)	2,382
Other movements and timing differences		265	(392)	(127)	238
Treatment of 'grandfathered' debt instruments under the GWS Framework		-	-	-	1,995
Equity items from discontinued US operations		-	-	-	(206)
Net movement in free surplus before non-controlling interest and before net subordinated debt redemption		(1,322)	(149)	(1,471)	4,294
Net subordinated debt redemption		-	(1,699)	(1,699)	(232)
Net movement in free surplus before non-controlling interest		(1,322)	(1,848)	(3,170)	4,062
Change in amounts attributable to non-controlling interests		(10)	-	(10)	(106)
Balance at beginning of year (as previously reported)		6,650	7,399	14,049	10,093
Effect of HK RBC		1,360	-	1,360	-
Balance at beginning of year after adoption of HK RBC		8,010	7,399	15,409	10,093
Balance at end of year		6,678	5,551	12,229	14,049
Representing:					
Free surplus excluding distribution rights and other intangibles		5,727	2,663	8,390	10,083
Distribution rights and other intangibles		951	2,888	3,839	3,966
Balance at end of year		6,678	5,551	12,229	14,049

Contribution to Group free surplus:	Note	2022 \$m		2021 \$m	
		Insurance and asset management operations	Other (central) operations	Group total	Group total
At end of year:					
Long-term business	2	6,035	-	6,035	5,960
Asset management and other	5	643	5,551	6,194	8,089
Free surplus at end of year		6,678	5,551	12,229	14,049
At beginning of year:					
Long-term business	2	5,960	-	5,960	5,348
Asset management and other	5	690	7,399	8,089	2,996
Total continuing operations at beginning of year		6,650	7,399	14,049	8,344
Discontinued US operations		-	-	-	1,749
Free surplus at beginning of year		6,650	7,399	14,049	10,093

Notes

- (i) Discontinued operations represent the Group's US business (Jackson) which was demerged in September 2021.
- (ii) Free surplus invested in new business primarily represents acquisition costs and amounts set aside for required capital.
- (iii) Non-operating free surplus generated for other operations represents the post-tax IFRS basis short-term fluctuations in investment returns, gain or loss on corporate transactions for other entities and the movement in the mark-to-market value adjustment on core structural borrowings which did not meet the qualifying conditions as set out in the Insurance (Group Capital) Rules.
- (iv) Net cash flows to parent company reflect the cash remittances as included in the holding company cash flow at transaction rates. The difference to the intra-group dividends and investment in operations in the movement in EEV shareholders' equity primarily relates to intra-group loans, foreign exchange and other non-cash items.
- (v) New share capital subscribed in 2021 primarily represented the issuance of new ordinary shares on the Hong Kong Stock Exchange in October 2021.

Notes on the EEV basis results

1 Analysis of new business profit and EEV for long-term business operations

2022						
	New business profit (NBP) \$m	Annual premium equivalent (APE) \$m	Present value of new business premiums (PVNBP) \$m	New business margin (APE) %	New business margin (PVNBP) %	Closing EEV shareholders' equity, excluding goodwill \$m
CPL (Prudential's share)	387	884	3,521	44%	11%	3,259
Hong Kong	384	522	3,295	74%	12%	16,576
Indonesia	125	247	1,040	51%	12%	1,833
Malaysia	159	359	1,879	44%	8%	3,695
Singapore	499	770	6,091	65%	8%	6,806
Growth markets and other	630	1,611	6,580	39%	10%	6,688
Total long-term operations	2,184	4,393	22,406	50%	10%	38,857

2021 (AER)						
	New business profit (NBP) \$m	Annual premium equivalent (APE) \$m	Present value of new business premiums (PVNBP) \$m	New business margin (APE) %	New business margin (PVNBP) %	Closing EEV shareholders' equity, excluding goodwill \$m
CPL (Prudential's share)	352	776	3,761	45%	9%	3,114
Hong Kong	736	550	4,847	134%	15%	21,460
Indonesia	125	252	1,067	50%	12%	2,237
Malaysia	232	461	2,137	50%	11%	3,841
Singapore	523	743	6,214	70%	8%	7,732
Growth markets and other	558	1,412	6,127	40%	9%	6,262
Total long-term operations	2,526	4,194	24,153	60%	10%	44,646

2021 (CER)						
	New business profit (NBP) \$m	Annual premium equivalent (APE) \$m	Present value of new business premiums (PVNBP) \$m	New business margin (APE) %	New business margin (PVNBP) %	Closing EEV shareholders' equity, excluding goodwill \$m
CPL (Prudential's share)	337	743	3,602	45%	9%	2,855
Hong Kong	731	546	4,812	134%	15%	21,436
Indonesia	120	243	1,027	49%	12%	2,048
Malaysia	219	434	2,013	50%	11%	3,633
Singapore	510	724	6,056	70%	8%	7,772
Growth markets and other	526	1,323	5,771	40%	9%	5,852
Total long-term operations	2,443	4,013	23,281	61%	10%	43,596

Note

The movement in new business profit from long-term operations is analysed as follows:

	\$m
2021 new business profit	2,526
Foreign exchange movement	(83)
Sales volume	231
Effect of changes in interest rates and other economic assumptions	(173)
Business mix, product mix and other items	(317)
2022 new business profit	2,184

EEV new business profit reflects the value of expected future profits from the new business sold in the year, and is a measure used by Prudential to assess profitability of the new business written. Explanations of changes in new business profitability is contained in the Group Strategic and Operating Review. Information on the Group's operating experience variances on the in-force business is shown in note 2.

2 Analysis of movement in net worth and value of in-force business for long-term business operations

	2022 \$m					2021 \$m
	Free surplus	Required capital	Net worth	Value of in-force business	Embedded value	Embedded value
Balance at beginning of year after adoption of HK RBC						
Balance at beginning of year (as previously reported)	5,960	3,230	9,190	35,456	44,646	42,861
Effect of HK RBC	1,360	2,853	4,213	(3,984)	229	-
Balance at beginning of year after adoption of HK RBC	7,320	6,083	13,403	31,472	44,875	42,861
New business contribution	(567)	334	(233)	2,417	2,184	2,526
Existing business – transfer to net worth	2,406	(198)	2,208	(2,208)	-	-
Expected return on existing business ^{note 2(b)}	347	289	636	1,923	2,559	1,761
Changes in operating assumptions, experience variances and other items ^{note 2(c)}	(227)	(266)	(493)	292	(201)	(131)
Operating profit before restructuring and IFRS 17 implementation costs	1,959	159	2,118	2,424	4,542	4,156
Restructuring and IFRS 17 implementation costs	(111)	-	(111)	(5)	(116)	(82)
Operating profit	1,848	159	2,007	2,419	4,426	4,074
Non-operating result ^{note 2(d)}	(2,040)	(548)	(2,588)	(5,881)	(8,469)	(603)
(Loss) profit for the year	(192)	(389)	(581)	(3,462)	(4,043)	3,471
Non-controlling interests share of (profit) loss	(3)	-	(3)	(19)	(22)	(30)
(Loss) profit for the year attributable to equity holders of the Company	(195)	(389)	(584)	(3,481)	(4,065)	3,441
Foreign exchange movements	(283)	(94)	(377)	(769)	(1,146)	(457)
Intra-group dividends and investment in operations	(999)	(44)	(1,043)	44	(999)	(1,115)
Other movements ^{note 2(e)}	192	-	192	-	192	(84)
Balance at end of year^{note 2(a)}	6,035	5,556	11,591	27,266	38,857	44,646

(a) Total embedded value

The total embedded value for long-term business operations at the end of each year, excluding goodwill attributable to equity holders, can be analysed as follows:

	31 Dec 2022 \$m	31 Dec 2021 \$m
Value of in-force business before deduction of cost of capital and time value of options and guarantees	28,126	36,965
Cost of capital	(709)	(725)
Time value of options and guarantees ^{note}	(151)	(784)
Net value of in-force business	27,266	35,456
Free surplus	6,035	5,960
Required capital	5,556	3,230
Net worth	11,591	9,190
Embedded value	38,857	44,646

Note

The time value of options and guarantees (TVOG) arises from the variability of economic outcomes in the future and is, where appropriate, calculated as the difference between an average outcome across a range of economic scenarios, calibrated around a central scenario, and the outcome from the central economic scenario, as described in note 8.1(d). At 31 December 2022, the TVOG is \$(151) million, with the substantial majority arising in Hong Kong. The TVOG has decreased since 31 December 2021 reflecting the generally higher government bond yields at 31 December 2022 which mean guarantees are less likely to be in-the-money. The TVOG reflects the variability of guaranteed benefit payouts across the range of economic scenarios around interest rates at the valuation date and represents some of the market risk for the key products in Hong Kong. As this market risk is explicitly allowed for via the TVOG, no further adjustment is made for this within the EEV risk discount rate, as described in note 8.1(h).

(b) Expected return on existing business

The expected return on existing business reflects the effect of changes in economic and operating assumptions in the current year, as described in note 8.2(c). The movement in this amount compared to the prior year from long-term operations is analysed as follows:

	\$m
2021 expected return on existing business	1,761
Foreign exchange movement	(56)
Effect of changes in interest rates and other economic assumptions	715
Growth in opening value of in-force business and other items	139
2022 expected return on existing business	2,559

(c) Changes in operating assumption, experience variances and other items

Overall, the total impact of operating assumption changes, experience variances and other items in 2022 was \$(201) million (2021: \$(131) million), comprising changes in operating assumptions of \$32 million in 2022 (2021: \$118 million) and experience variances and other items of \$(233) million (2021: \$(249) million).

(d) Non-operating results

The EEV non-operating result from long-term operations can be summarised as follows:

	2022 \$m	2021 \$m
Short-term fluctuations in investment returns ^{note (i)}	(6,893)	(1,015)
Effect of change in economic assumptions ^{note (ii)}	(1,571)	412
Loss attaching to corporate transactions	(5)	-
Non-operating results	(8,469)	(603)

Notes

- (i) The charge of \$(6,893) million for short-term fluctuations in investment returns mainly reflects lower than expected bond returns, following the rise in interest rates in many markets in the year, widening credit spreads and falling equity markets.
- (ii) The charge of \$(1,571) million for effect of change in economic assumptions primarily arises from increases in interest rates, resulting in higher risk discount rates, partially offset by the effect of higher assumed fund earned rates that impact projected future cash flows. The effects and impacts vary between businesses and products with the overall negative impact due to larger weight of health and protection business outweighing positive impacts for other products.

(e) Other reserve movements

Other movements include reserve movements in respect of share-based payments, treasury shares, intra-group loans and other intra-group transfers between operations that have no overall effect on the Group's shareholders' equity.

3 Sensitivity of results for long-term business operations

(a) Sensitivity analysis – economic assumptions

The tables below show the sensitivity of the new business profit and the embedded value for long-term business operations to:

- 1 per cent and 2 per cent increases in interest rates and 0.5 per cent decrease in interest rates. This allows for consequential changes in the assumed investment returns for all asset classes, market values of fixed interest assets, local statutory reserves, capital requirements and risk discount rates (but excludes changes in the allowance for market risk);
- 1 per cent rise in equity and property yields;
- 1 per cent and 2 per cent increases in the risk discount rates. The main driver for changes in the risk discount rates from period to period is changes in interest rates, the impact of which is expected to be partially offset by a corresponding change in assumed investment returns, the effect of which is not included in the risk discount rate sensitivities. The impact of higher investment returns can be approximated as the difference between the sensitivity to increases in interest rates and the sensitivity to increases in risk discount rates;
- For embedded value only, 20 per cent fall in the market value of equity and property assets; and
- For embedded value only, holding the Group Minimum Capital Requirements (GMCR) under the GWS Framework in contrast to EEV required capital based on the GPCR. This reduces the level of capital and therefore the level of charge deducted from the embedded value for the cost of locked-in required capital. This has the effect of increasing EEV.

The sensitivities shown below are for the impact of instantaneous and permanent changes (with no trending or mean reversion) on the embedded value of long-term business operations and include the combined effect on the value of in-force business and net assets (including derivatives) held at the valuation dates indicated. The results only allow for limited management actions, such as changes to future policyholder bonuses, where applicable. If such economic conditions persisted, the financial impacts may differ to the instantaneous impacts shown below. In this case, management could also take additional actions to help mitigate the impact of these stresses. No change in the mix of the asset portfolio held at the valuation date is assumed when calculating sensitivities, while changes in the market value of those assets are recognised. The sensitivity impacts are expected to be non-linear. To aid understanding of this non-linearity, impacts of both a 1 per cent and 2 per cent increase to interest rates and risk discount rates are shown.

If the changes in assumptions shown in the sensitivities were to occur, the effects shown below would be recorded within two components of the profit analysis for the following period, namely the effect of changes in economic assumptions and short-term fluctuations in investment returns. In addition to the sensitivity effects shown below, the other components of the profit for the following period would be calculated by reference to the altered assumptions, for example, new business profit and expected return on existing business.

New business profit from long-term business

	2022 \$m	2021 \$m
New business profit	2,184	2,526
Sensitivity to alternative economic assumptions:		
Interest rates and consequential effects – 2% increase	220	88
Interest rates and consequential effects – 1% increase	134	70
Interest rates and consequential effects – 0.5% decrease	(97)	(64)
Equity/property yields – 1% rise	160	155
Risk discount rates – 2% increase	(551)	(653)
Risk discount rates – 1% increase	(309)	(380)

Embedded value of long-term business

	31 Dec 2022 \$m	31 Dec 2021 \$m
Embedded value	38,857	44,646
Sensitivity to alternative economic assumptions:		
Interest rates and consequential effects – 2% increase	(3,988)	(4,782)
Interest rates and consequential effects – 1% increase	(2,067)	(2,228)
Interest rates and consequential effects – 0.5% decrease	1,058	223
Equity/property yields – 1% rise	1,884	1,909
Equity/property market values – 20% fall	(1,840)	(1,959)
Risk discount rates – 2% increase	(7,371)	(9,717)
Risk discount rates – 1% increase	(4,155)	(5,443)
Group Minimum Capital Requirements	117	136

For a 1 per cent increase in assumed interest rates, the \$(2,067) million negative effect comprises a \$(4,155) million negative impact of increasing the risk discount rate by 1 per cent, partially offset by a \$2,088 million benefit from assuming 1 per cent higher investment returns. Similarly, for a 2 per cent increase in assumed interest rates the \$(3,988) million negative effect comprises a \$(7,371) million negative impact of increasing the risk discount rates by 2 per cent, partially offset by a \$3,383 million benefit from higher assumed investment returns. Finally, for a 0.5 per cent decrease in assumed interest rates, there would be a \$1,058 million positive effect reflecting the benefit of a 0.5 per cent reduction in risk discount rates being partially offset by lower assumed investment returns. These offsetting impacts are sensitive to economics and the net impact can therefore change from period to period depending on the current level of interest rates.

In order to illustrate the impact of varying specific economic assumptions, all other assumptions are held constant in the sensitivities above and, therefore, the actual changes in embedded value were these economic effects to materialise may differ from the sensitivities shown. For example, market risk allowances within the risk discount rate may change if interest rates change and these are not allowed for in the above. If market risk allowances were changed as expected when interest rates are increased by 1 per cent, the expected reduction in EEV would be \$(2,038) million (compared with the \$(2,067) million impact shown above). Similarly, if interest rates actually decreased by 0.5 per cent, it would lead to a \$1,029 million increase (compared with the \$1,058 million increase shown above).

(b) Sensitivity analysis – non-economic assumptions

The tables below show the sensitivity of the new business profit and the embedded value for long-term business operations to:

- 10 per cent proportionate decrease in maintenance expenses (for example, a 10 per cent sensitivity on a base assumption of \$10 per annum would represent an expense assumption of \$9 per annum);
- 10 per cent proportionate decrease in lapse rates (for example, a 10 per cent sensitivity on a base assumption of 5.0 per cent would represent a lapse rate of 4.5 per cent per annum); and
- 5 per cent proportionate decrease in base mortality (ie increased longevity) and morbidity rates.

New business profit from long-term business

	2022 \$m	2021 \$m
New business profit	2,184	2,526
Maintenance expenses – 10% decrease	48	60
Lapse rates – 10% decrease	134	190
Mortality and morbidity – 5% decrease	99	143

Embedded value of long-term business

	31 Dec 2022 \$m	31 Dec 2021 \$m
Embedded value	38,857	44,646
Maintenance expenses – 10% decrease	411	455
Lapse rates – 10% decrease	1,533	1,901
Mortality and morbidity – 5% decrease	1,300	1,596

4 Expected transfer of value of in-force business and required capital to free surplus for long-term business operations on a discounted basis

The table below shows how the value of in-force business (VIF) and the associated required capital for long-term business operations are projected as emerging into free surplus over future years. Cash flows are projected on a deterministic basis and are discounted at the appropriate risk discount rate. The modelled cash flows use the same methodology underpinning the Group's EEV reporting and so are subject to the same assumptions and sensitivities. The projected emergence of VIF and required capital into free surplus in 2022 will be the starting point for expected free surplus generation next year, after updating for operating and economic assumption changes. See note I(vi) of the Additional unaudited financial information for further detail.

	Total expected emergence	Expected period of conversion of future post-tax distributable earnings and required capital flows to free surplus at 31 Dec					
		1-5 years	6-10 years	11-15 years	16-20 years	21-40 years	40+ years
2022 (\$m)	32,648	9,764	6,038	4,360	3,424	6,910	2,152
(%)	100%	30%	19%	13%	10%	21%	7%
2021 (\$m)	38,922	9,520	6,824	5,160	4,190	9,588	3,640
(%)	100%	24%	18%	13%	11%	25%	9%

The required capital and value of in-force business for long-term business operations can be reconciled to the total discounted emergence of future free surplus shown above as follows:

	31 Dec 2022 \$m	31 Dec 2021 \$m
Required capital ^{note 2}	5,556	3,230
Value of in-force business (VIF) ^{note 2}	27,266	35,456
Other items*	(174)	236
Long-term business operations	32,648	38,922

* 'Other items' represent the impact of the TVOG and amounts incorporated into VIF where there is no definitive time frame for when the payments will be made or receipts received. These items are excluded from the expected free surplus generation profile above.

5 EEV results for other (central) operations

EEV results for other income and expenditure represents the post-tax IFRS results for other (central) operations (before restructuring and IFRS 17 implementation costs), together with an adjustment to deduct the unwind of expected margins on the internal management of the assets of the covered business, as shown in the table below. It mainly includes interest costs on core structural borrowings and corporate expenditure for head office functions that are not recharged/allocated to the insurance operations.

In line with the EEV Principles, the allowance for the future costs of internal asset management services within the EEV results for long-term insurance operations excludes the projected future profits or losses generated by any non-insurance entities within the Group in providing those services (ie the EEV for long-term insurance operations assumes that the cost of internal asset management services will be that incurred by the Group as a whole, not the cost that will be borne by the insurance business). The results of the Group's asset management operations include the current period profit from the management of both internal and external funds, consistent with their presentation within the Group's IFRS basis reporting. An adjustment is accordingly made to Group EEV operating profit, within the EEV results for other operations, to deduct the expected profit anticipated to arise in the current period in the opening value of in-force business from internal asset management services, such that Group EEV operating profit includes the actual profit earned in respect of the management of these assets.

Any costs incurred within the head office functions that are deemed attributable to the long-term insurance (covered) business are recharged to the insurance operations and recorded within the results for those operations. The assumed future expenses within the value of in-force business for long-term insurance operations allow for amounts expected to be recharged by the head office functions. Other costs that are not recharged to the insurance operations are shown as part of other income and expenditure for the current period, and are not included within the projection of future expenses for in-force insurance business.

	2022 \$m	2021 \$m
IFRS other income (expenditure) (as recorded in note B1.1 of the IFRS financial results)	(437)	(605)
Tax charge on the above IFRS results	(21)	(37)
Less: unwind of expected profit on internal management of the assets of long-term business	(84)	(81)
EEV other income (expenditure)	(542)	(723)

The EEV shareholders' equity for other operations is taken to be IFRS shareholders' equity, with central Group debt shown on a market value basis. Free surplus for other operations is taken to be IFRS shareholders' equity, net of goodwill attributable to equity holders, with central Group debt recorded as free surplus to the extent that it is classified as capital resources under the Group's capital regime. Under the GWS Framework, debt instruments issued at the date of designation which met the transitional conditions set by the Hong Kong IA are included as GWS eligible group capital resources. In addition, debt issued since the date of designation which met the qualifying conditions as set out in the Insurance (Group Capital) Rules are also included as GWS eligible group capital resources. The \$350 million senior debt issued in 2022 did not meet the conditions and hence has not been treated as available capital within free surplus.

Shareholders' equity for other (central) operations can be compared across metrics as shown in the table below.

	2022 \$m	2021 \$m
IFRS basis shareholders' equity (as recorded in note C1 of the IFRS financial results)	1,495	1,679
Mark-to-market value adjustment on central borrowings ^{note 6}	427	(438)
EEV basis shareholders' equity	1,922	1,241
Debt instruments treated as capital resources	3,629	6,158
Free surplus of other (central) operations	5,551	7,399

Jackson shareholding

The fair value of the Group's retained interest in Jackson equity securities, as included in the Group's EEV at 31 December 2022, was \$266 million (31 December 2021: \$683 million). Net unrealised changes in fair value since the date of demerger have been included in other movements in equity items as part of the EEV basis results for other (central) operations. This treatment is consistent with the approach adopted for IFRS. Further information can be found in note D1.2 of the IFRS financial results.

6 Net core structural borrowings of shareholder-financed businesses

	31 Dec 2022 \$m			31 Dec 2021 \$m		
	IFRS basis note (ii)	Mark-to-market adjustment note (iii)	EEV basis at market value	IFRS basis note (ii)	Mark-to-market adjustment note (iii)	EEV basis at market value
Holding company cash and short-term investments ^{note (i)}	(3,057)	-	(3,057)	(3,572)	-	(3,572)
Central borrowings:						
Subordinated debt	2,286	(306)	1,980	4,075	196	4,271
Senior debt	1,975	(121)	1,854	1,702	242	1,944
Bank loan	-	-	-	350	-	350
Total central borrowings	4,261	(427)	3,834	6,127	438	6,565
Net core structural borrowings of shareholder-financed businesses	1,204	(427)	777	2,555	438	2,993

Notes

- (i) The definition of holding company cash and short-term investments has been updated. As at 31 December 2022, holding company includes central holding and service companies. As at 31 December 2021, holding company includes centrally managed group holding companies. Further information is provided in note I(v) of the Additional unaudited financial information.

- (ii) As recorded in note C5.1 of the IFRS financial results.
- (iii) The movement in the value of core structural borrowings includes issuances and redemptions in the year and foreign exchange effects for pounds sterling denominated debts. The movement in the mark-to-market value adjustment can be analysed as follows:

	2022 \$m	2021 \$m
Mark-to-market value adjustment at beginning of year	438	795
Credit included in the income statement	(865)	(357)
Mark-to-market value adjustment at end of year	(427)	438

7 Comparison of EEV basis shareholders' equity with IFRS basis shareholders' equity

	31 Dec 2022 \$m	31 Dec 2021 \$m
Assets less liabilities before deduction of insurance funds	140,078	164,810
Less insurance funds (including liabilities in respect of insurance products classified as investment contracts under IFRS 4):		
Policyholder liabilities (net of reinsurers' share) and unallocated surplus of with-profits funds	(122,951)	(147,546)
Shareholders' accrued interest in the long-term business	25,224	30,267
	(97,727)	(117,279)
Less non-controlling interests	(167)	(176)
Total net assets attributable to equity holders of the Company	42,184	47,355
Share capital	182	182
Share premium	5,006	5,010
IFRS basis shareholders' reserves	11,772	11,896
IFRS basis shareholders' equity, net of non-controlling interests	16,960	17,088
Shareholders' accrued interest in the long-term business	25,224	30,267
EEV basis shareholders' equity, net of non-controlling interests	42,184	47,355

8 Methodology and accounting presentation

8.1 Methodology

(a) Covered business

The EEV basis results for the Group are prepared for 'covered business' as defined by the EEV Principles. Covered business represents the Group's long-term insurance business (including the Group's investments in joint venture and associate insurance operations), for which the value of new and in-force contracts is attributable to shareholders. The definition of long-term insurance business comprises those contracts falling under the definition for regulatory purposes.

The EEV results for the Group's covered business are then combined with the post-tax IFRS results of the Group's asset management and other operations (including interest costs on core structural borrowings and corporate expenditure for head office functions that is not recharged/allocated to the insurance operations), with an adjustment to deduct the unwind of expected margins on the internal management of the assets of the covered business. Under the EEV Principles, the results for covered business incorporate the projected margins of attaching internal asset management, as described in note (g) below.

(b) Valuation of in-force and new business

The EEV basis results are prepared incorporating best estimate assumptions about all relevant factors including levels of future investment returns, persistency, mortality, morbidity and expenses, as described in note 9(c). These assumptions are used to project future cash flows. The present value of the projected future cash flows is then calculated using a discount rate, as shown in note 9(a), which reflects both the time value of money and all other non-diversifiable risks associated with the cash flows that are not otherwise allowed for.

The total profit that emerges over the lifetime of an individual contract as calculated under the EEV basis is the same as that calculated under the IFRS basis. Since the EEV basis reflects discounted future cash flows, under the EEV methodology the profit emergence is advanced, thus more closely aligning the timing of the recognition of profit with the efforts and risks of current management actions, particularly with regard to business sold during the period.

New business

In determining the EEV basis value of new business, premiums are included in projected cash flows on the same basis of distinguishing regular and single premium business as set out in the Group's new business sales reporting.

New business premiums reflect those premiums attaching to the covered business, including premiums for contracts classified as investment contracts under IFRS 4. New business premiums for regular premium products are shown on an annualised basis.

New business profit represents profit determined by applying operating and economic assumptions as at the end of the period. New business profitability is a key metric for the Group's management of the development of the business. In addition, new business margins are shown by reference to annual premium equivalent (APE) and the present value of new business premiums (PVNBP). These margins are calculated as the percentage of the value of new business profit to APE and PVNBP. APE is calculated as the aggregate of regular premiums on new business written in the period and one-tenth of single premiums. PVNBP is calculated as the aggregate of single premiums and the present value of expected future premiums from regular premium new business, allowing for lapses and the other assumptions made in determining the EEV new business profit.

(c) Cost of capital

A charge is deducted from the embedded value for the cost of locked-in required capital supporting the Group's long-term business. The cost is the difference between the nominal value of the capital held and the discounted value of the projected releases of this capital, allowing for post-tax investment earnings on the capital.

The EEV results are affected by the movement in this cost from period to period, which comprises a charge against new business profit and generally a release in respect of the reduction in capital requirements for business in force as this runs off.

Where required capital is held within a with-profits long-term fund, the value placed on surplus assets within the fund is already adjusted to reflect its expected release over time and so no further adjustment to the shareholder position is necessary.

(d) Financial options and guarantees

Nature of financial options and guarantees

Participating products, principally written in China, Hong Kong, Malaysia, Singapore and Taiwan, have both guaranteed and non-guaranteed elements. These products provide returns to policyholders through bonuses that are smoothed. There are two types of bonuses: regular and final. Regular bonuses are declared once a year and, once credited, are guaranteed in accordance with the terms of the particular products. Final bonuses are guaranteed only until the next bonus declaration.

There are also various non-participating long-term products with guarantees. The principal guarantees are those for whole-of-life contracts with floor levels of policyholder benefits that typically accrue at rates set at inception and do not vary subsequently with market conditions. Similar to participating products, the policyholder charges incorporate an allowance for the cost of providing these guarantees, which, for certain whole-of-life products in Hong Kong, remains constant throughout varying economic conditions, rather than reducing as the economic environment improves and vice versa.

Time value

The value of financial options and guarantees comprises the intrinsic value (arising from a deterministic valuation on best estimate assumptions) and the time value (arising from the variability of economic outcomes in the future).

Where appropriate (ie where financial options and guarantees are explicitly valued under the EEV methodology), a full stochastic valuation has been undertaken to determine the time value of financial options and guarantees. The economic assumptions used for the stochastic calculations are consistent with those used for the deterministic calculations. Assumptions specific to the stochastic calculations reflect local market conditions and are based on a combination of actual market data, historic market data and an assessment of long-term economic conditions. Common principles have been adopted across the Group for the stochastic asset models, such as separate modelling of individual asset classes with an allowance for correlations between various asset classes. Details of the key characteristics of each model are given in note 9(b).

In deriving the time value of financial options and guarantees, management actions in response to emerging investment and fund solvency conditions have been modelled. Management actions encompass, but are not confined to, investment allocation decisions, levels of regular and final bonuses and credited rates. Bonus rates are projected from current levels and varied in accordance with assumed management actions applying in the emerging investment and fund solvency conditions. In all instances, the modelled actions are in accordance with approved local practice and therefore reflect the options available to management.

(e) Level of required capital and net worth

In adopting the EEV Principles, Prudential has based required capital on the applicable local statutory regulations, including any amounts considered to be required above the local statutory minimum requirements to satisfy regulatory constraints.

For shareholder-backed businesses, the level of required capital has been based on the GPCR.

- For CPL operations, the level of required capital follows the approach for embedded value reporting issued by the China Association of Actuaries (CAA) reflecting the C-ROSS regime. The CAA has started a project to assess whether any changes are required to the embedded value guidance in China given changes in regulatory rules, regulations and the external market environment since the standard was first issued. To date, no outcomes have been proposed by the CAA and Prudential has made no change to its EEV basis for CPL in 2022. At such time that there is a new basis, Prudential will consider the effect of proposals.
- For Hong Kong participating business, the HK RBC regime recognises the value of future shareholder transfers on an economic basis as available capital with an associated required capital. Within EEV, the shareholder value of participating business continues to be recognised as VIF with no recognition within free surplus and no associated required capital.
- For Singapore life operations, the level of net worth and required capital is based on the Tier 1 Capital position under the risk-based capital framework (RBC2), which removes certain negative reserves permitted to be recognised in the full RBC2 regulatory position applicable to the Group's GWS capital position, in order to better reflect free surplus and its generation.

Free surplus is the shareholders' net worth in excess of required capital. For the Hong Kong business, the HK RBC framework requires liabilities to be valued on a best estimate basis and capital requirements to be risk based. EEV free surplus excludes regulatory surplus that arises where HK RBC technical provisions are lower than policyholder asset shares or cash surrender values to more realistically reflect how the business is managed.

(f) With-profits business and the treatment of the estate

For the Group's relevant operations, the proportion of surplus allocated to shareholders from the with-profits funds has been based on the applicable profit distribution between shareholders and policyholders. The EEV methodology includes the value attributed to the shareholders' interest in the residual estate of the in-force with-profits business. In any scenarios where the total assets of the life fund are insufficient to meet policyholder claims in full, the excess cost is fully attributed to shareholders. As required, adjustments are also made to reflect any capital requirements for with-profits business in excess of the capital resources of the with-profits funds.

(g) Internal asset management

In line with the EEV Principles, the in-force and new business results from long-term business include the projected future profit or loss from asset management and service companies that support the Group's covered insurance businesses. The results of the Group's asset management operations include the current period profit from the management of both internal and external funds.

EEV basis shareholders' other income and expenditure is adjusted to deduct the expected profit anticipated to arise in the current period in the opening VIF from internal asset management and other services. This deduction is on a basis consistent with that used for projecting the results for covered insurance business. Accordingly, Group operating profit includes the actual profit earned in respect of the management of these assets.

(h) Allowance for risk and risk discount rates

Overview

Under the EEV Principles, discount rates used to determine the present value of expected future cash flows are set by reference to risk-free rates plus a risk margin.

The risk-free rates are largely based on local government bond yields at the valuation date and are assumed to remain constant throughout the projection, with no trending or mean reversion to longer-term assumptions that cannot be observed in the current market.

The risk margin reflects any non-diversifiable risk associated with the emergence of distributable earnings that is not allowed for elsewhere in the valuation. In order to better reflect differences in relative market risk volatility inherent in each product group, Prudential sets the risk discount rates to reflect the expected volatility associated with the expected future shareholder cash flows for each product group in the embedded value model, rather than at a Group level.

Where financial options and guarantees are explicitly valued under the EEV methodology, risk discount rates exclude the effect of these product features.

The risk margin represents the aggregate of the allowance for market risk and allowance for non-diversifiable non-market risk. No allowance is required for non-market risks where these are assumed to be fully diversifiable.

Market risk allowance

The allowance for market risk represents the beta multiplied by the equity risk premium.

The beta of a portfolio or product measures its relative market risk. The risk discount rates reflect the market risk inherent in each product group and hence the volatility of product-specific cash flows. These are determined by considering how the profit from each product is affected by changes in expected returns across asset classes. By converting this into a relative rate of return, it is possible to derive a product-specific beta. This approach contrasts with a top-down approach to market risk where the risks associated with each product are not directly reflected in the valuation basis.

The Group's methodology allows for credit risk in determining the best estimate returns and through the market risk allowance, which covers expected long-term defaults, a credit risk premium (to reflect the volatility in downgrade and default levels) and short-term downgrades and defaults.

Allowance for non-diversifiable non-market risks

The majority of non-market and non-credit risks are considered to be diversifiable. An allowance for non-diversifiable non-market risks is estimated as set out below.

A base level allowance of 50 basis points is applied to cover the non-diversifiable non-market risks associated with the Group's covered business. For the Group's businesses in less mature markets (such as the Philippines, Thailand and Africa) additional allowances of 250 basis points are applied. The level and application of these allowances are reviewed and updated based on an assessment of the Group's exposure and experience in the markets. For the Group's business in more mature markets, no additional allowance is necessary. At 31 December 2022, the total allowance for non-diversifiable non-market risk is equivalent to a \$(2.8) billion, or (7) per cent, reduction to the embedded value of long-term business operations.

(i) Foreign currency translation

Foreign currency profits and losses have been translated at average exchange rates for the period. Foreign currency transactions are translated at the spot rate prevailing at the date of the transactions. Foreign currency assets and liabilities have been translated at closing exchange rates. The principal exchange rates are shown in note A1 of the Group IFRS financial results.

(j) Taxation

In determining the post-tax profit for the period for covered business, the overall tax rate includes the impact of tax effects determined on a local regulatory basis. Tax payments and receipts included in the projected future cash flows to determine the value of in-force business are calculated using tax rates that have been announced and substantively enacted by the end of the reporting period.

8.2 Accounting presentation

(a) Analysis of post-tax profit or loss

To the extent applicable, the presentation of the EEV profit or loss for the period is consistent with the classification between operating and non-operating results that the Group applies for the analysis of IFRS results. Operating results are determined as described in note (b) below and incorporate the following:

- New business profit, as defined in note 8.1(b) above;
- Expected return on existing business, as described in note (c) below;
- The impact of routine changes of estimates relating to operating assumptions, as described in note (d) below; and
- Operating experience variances, as described in note (e) below.

In addition, operating results include the effect of changes in tax legislation, unless these changes are one-off and structural in nature, or primarily affect the level of projected investment returns, in which case they are reflected as a non-operating result.

Non-operating results comprise:

- Short-term fluctuations in investment returns;
- Mark-to-market value movements on core structural borrowings;
- Effect of changes in economic assumptions; and
- The impact of corporate transactions, if any, undertaken in the year.

Total profit or loss in the period attributable to shareholders and basic earnings per share include these items, together with actual investment returns. The Group believes that operating profit, as adjusted for these items, better reflects underlying performance.

(b) Investment returns included in operating profit

For the investment element of the assets covering the total net worth of long-term insurance business, investment returns are recognised in operating results at the expected long-term rates of return. These expected returns are calculated by reference to the asset mix of the portfolio.

(c) Expected return on existing business

Expected return on existing business comprises the expected unwind of discounting effects on the opening value of in-force business and required capital and the expected return on existing free surplus. The unwind of discount and the expected return on existing free surplus are determined after adjusting for the effect of changes in economic and operating assumptions in the current period on the embedded value at the beginning of the period, for example, the unwind of discount on the value of in-force business and required capital is determined after adjusting both the opening value and the risk discount rates for the effect of changes in economic and operating assumptions in the current period.

(d) Effect of changes in operating assumptions

Operating profit includes the effect of changes to operating assumptions on the value of in-force business at the end of the reporting period. For presentational purposes the effect of changes is delineated to show the effect on the opening value of in-force business as operating assumption changes, with the experience variances subsequently being determined by reference to the assumptions at the end of the reporting period, as discussed below.

(e) Operating experience variances

Operating profit includes the effect of experience variances on operating assumptions, such as persistency, mortality, morbidity, expenses and other factors, which are calculated with reference to the assumptions at the end of the reporting period.

(f) Effect of changes in economic assumptions

Movements in the value of in-force business at the beginning of the period caused by changes in economic assumptions, net of the related changes in the time value of financial options and guarantees, are recorded in non-operating results.

9 Assumptions

(a) Principal economic assumptions

The EEV results for the Group's covered business are determined using economic assumptions where both the risk discount rates and long-term expected rates of return on investments are set with reference to risk-free rates of return at the end of the reporting period. Both the risk discount rate and expected rates of return are updated at each valuation date to reflect current market risk-free rates, with the effect that changes in market risk-free rates impact all projected future cash flows. The risk-free rates of return are largely based on local government bond yields and are assumed to remain constant throughout the projection, with no trending or mean reversion to longer-term assumptions that cannot be observed in the current market. The risk-free rates of return are shown below for each of the Group's insurance operations. Expected returns on equity and property assets and corporate bonds are derived by adding a risk premium to the risk-free rate based on the Group's long-term view.

As described in note 8.1(h), risk discount rates are set equal to the risk-free rate at the valuation date plus allowances for market risk and non-diversifiable non-market risks appropriate to the features and risks of the underlying products and markets.

Risks that are explicitly allowed for elsewhere in the EEV basis, such as via the cost of capital and the time value of options and guarantees, as set out in note 2(a), are not included in the risk discount rates.

	Risk discount rate %				10-year government bond yield %		Equity return (geometric) %	
	New business		In-force business		31 Dec	31 Dec	31 Dec	31 Dec
	2022	2021	2022	2021	2022	2021	2022	2021
CPL	7.4	7.3	7.4	7.3	2.9	2.8	6.9	6.8
Hong Kong ^{note (i)}	4.8	2.5	5.5	2.8	3.9	1.5	7.4	5.0
Indonesia	10.0	9.9	10.6	10.5	7.3	7.0	11.5	11.3
Malaysia	5.8	5.7	6.5	6.1	4.1	3.7	7.6	7.2
Philippines	14.5	12.0	14.5	12.0	7.3	4.8	11.5	9.0
Singapore	5.0	3.4	5.2	3.8	3.1	1.7	6.6	5.2
Taiwan	3.5	3.5	4.0	3.1	1.3	0.7	5.3	4.7
Thailand	10.0	9.3	10.0	9.3	2.7	2.0	7.0	6.3
Vietnam	6.9	4.0	6.7	4.1	5.0	2.2	9.3	6.4
Total weighted average (new business) ^{note (ii)}	6.9	5.0	n/a	n/a	4.2	2.7	7.5	6.1
Total weighted average (in-force business) ^{note (ii)}	n/a	n/a	6.4	4.3	4.0	2.3	7.6	5.8

Notes

- (i) For Hong Kong, the assumptions shown are for US dollar denominated business. For other businesses, the assumptions shown are for local currency denominated business.
- (ii) Total weighted average assumptions have been determined by weighting each business's assumptions by reference to the EEV basis new business profit and the closing net value of in-force business. The changes in the risk discount rates for individual businesses reflect the movements in the local government bond yields, changes in the allowance for market risk (including as a result of changes in asset mix) and changes in product mix.
- (iii) Expected long-term inflation assumptions range from 1.5 per cent to 5.5 per cent for all periods shown above.

(b) Stochastic assumptions

Details are given below of the key characteristics of the models used to determine the time value of financial options and guarantees as referred to in note 8.1(d).

- The stochastic cost of guarantees is primarily of significance for the Hong Kong, Malaysia, Singapore and Taiwan businesses;
- The principal asset classes are government bonds, corporate bonds and equity;
- Interest rates are projected using a stochastic interest rate model calibrated to the current market yields;
- Equity returns are assumed to follow a log-normal distribution;
- The corporate bond return is calculated based on a risk-free return plus a mean-reverting spread;
- The volatility of equity returns ranges from 18 per cent to 35 per cent for both years; and
- The volatility of government bond yields ranges from 1.1 per cent to 2.0 per cent for both years.

(c) Operating assumptions

Best estimate assumptions are used for projecting future cash flows, where best estimate is defined as the mean of the distribution of future possible outcomes. The assumptions are reviewed actively and changes are made when evidence exists that material changes in future experience are reasonably certain. Where experience is expected to be adverse over the short term, a provision may be established.

Assumptions required in the calculation of the time value of financial options and guarantees, for example relating to volatilities and correlations, or dynamic algorithms linking liabilities to assets, have been set equal to the best estimates and, wherever material and practical, reflect any dynamic relationships between the assumptions and the stochastic variables.

Demographic assumptions

Persistency, mortality and morbidity assumptions are based on an analysis of recent experience, and reflect expected future experience. When projecting future cash flows for medical reimbursement business that is repriced annually, explicit allowance is made for expected future premium inflation and separately for future medical claims inflation.

Expense assumptions

Expense levels, including those of the service companies that support the Group's long-term business, are based on internal expense analysis and are appropriately allocated to acquisition of new business and renewal of in-force business. For mature business, in general, it is Prudential's policy not to take credit for future cost reduction programmes until the actions to achieve the savings have been delivered. An allowance is made for short-term required expenses that are not representative of the longer-term expense loadings of the relevant businesses. At 31 December 2022, the allowance held for these costs across the Group was \$(173) million. If future expense overruns are expected to be short-lived, they are capitalised and subsequently amortised against future overruns.

Expenses comprise costs borne directly and costs recharged from the Group head office functions that are attributable to the long-term insurance (covered) business. The assumed future expenses for the long-term insurance business allow for amounts expected to be recharged by the head office functions. Development expenses are allocated to covered business and are charged as incurred.

Corporate expenditure, which is included in other income and expenditure, comprises expenditure of the Group head office functions that is not recharged/allocated to the long-term insurance or asset management operations, primarily for corporate-related activities that are charged as incurred, together with restructuring and IFRS 17 implementation costs incurred across the Group as recorded in note B1.1 of the IFRS financial results.

Tax rates

The assumed long-term effective tax rates for operations reflect the expected incidence of taxable profit or loss in the projected future cash flows as explained in note 8.1(j). The local standard corporate tax rates applicable are as follows:

	%
CPL	25.0
Hong Kong	16.5% on 5% of premium income
Indonesia	22.0
Malaysia*	24.0
Philippines	25.0
Singapore	17.0
Taiwan	20.0
Thailand	20.0
Vietnam	20.0

* The Malaysia 2022 Budget imposed a one-off tax change in 2022 where the first RM100 million chargeable income will continue to be taxed at the standard corporate tax rate of 24 per cent and any excess will be taxed at a rate of 33 per cent. The anticipated effect was allowed for within EEV at 31 December 2021.

10 Insurance new business

AER	Single premiums		Regular premiums		Annual premium equivalents (APE)		Present value of new business premiums (PVNBP)	
	2022 \$m	2021 \$m	2022 \$m	2021 \$m	2022 \$m	2021 \$m	2022 \$m	2021 \$m
CPL ^{note (i)}	1,254	1,760	759	600	884	776	3,521	3,761
Hong Kong	842	808	438	469	522	550	3,295	4,847
Indonesia	250	258	222	226	247	252	1,040	1,067
Malaysia	99	74	350	453	359	461	1,879	2,137
Singapore	2,628	2,412	507	502	770	743	6,091	6,214
Growth markets:								
Africa	9	15	148	133	149	134	308	288
Cambodia	-	-	18	14	18	14	69	59
India ^{note (ii)}	273	285	196	200	223	228	1,148	1,172
Laos	-	-	-	1	-	1	1	2
Myanmar	-	-	3	1	3	1	6	3
Philippines	61	89	176	168	182	177	615	655
Taiwan	157	172	486	379	503	397	1,835	1,417
Thailand	150	142	220	204	235	218	932	882
Vietnam	99	55	288	237	298	242	1,666	1,649
Total	5,822	6,070	3,811	3,587	4,393	4,194	22,406	24,153

Notes

- (i) New business in CPL is included at Prudential's 50 per cent interest in the joint venture.
- (ii) New business in India is included at Prudential's 22 per cent interest in the associate.
- (iii) The table above is provided as an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profit for shareholders. The amounts shown are not, and not intended to be, reflective of premium income recorded in the Group IFRS income statement.

11 Post balance sheet events

Second interim ordinary dividend

The 2022 second interim ordinary dividend approved by the Board of Directors after 31 December 2022 is as described in note B5 of the IFRS financial results.

Debt redemption

On 20 January 2023 the Company redeemed senior debt instruments of £300 million, as described in note C5.1 of the IFRS financial results.

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I Additional financial information

I(i) Group capital position

Prudential applies the Insurance (Group Capital) Rules set out in the Group-wide Supervision (GWS) Framework issued by the Hong Kong IA to determine group regulatory capital requirements (both minimum and prescribed levels). For regulated insurance entities, the capital resources and required capital included in the GWS capital measure for Hong Kong IA Group regulatory purposes are based on the local solvency regime applicable in each jurisdiction. The Group holds material participating business in Hong Kong, Singapore and Malaysia. Alongside the total regulatory GWS capital basis, a shareholder GWS capital basis is also presented which excludes the contribution to the Group GWS eligible group capital resources, the Group Minimum Capital Requirements (GMCR) and the Group Prescribed Capital Requirements (GPCR) from these participating funds.

Regulatory updates

The GWS group capital adequacy requirements require that total eligible group capital resources are not less than the GPCR and that GWS Tier 1 group capital resources are not less than the GMCR. In line with the changes in the 2022 Half-Year Report and the updated GWS disclosure guidelines issued by the Hong Kong IA in December 2022 the GWS capital disclosures present the Group capital position by comparing the total eligible group capital resources to the GPCR, aligned with the basis of our EEV capital requirements. In addition, the total regulatory Tier 1 capital resources relative to the GMCR is also disclosed.

The recent trend to more risk-based capital regimes being adopted in many of the Group's markets is continuing and this impacts on the Group's GWS capital measure, which is underpinned by the local regulatory regimes of the Group's subsidiaries, joint ventures and associates. C-ROSS Phase II became effective in the Chinese Mainland in the first quarter of 2022, and in April 2022 Prudential Hong Kong Limited received approval from the Hong Kong IA to early-adopt the new risk-based capital regime effective from 1 January 2022.

The impact of these changes on the GWS capital position, estimated as at 31 December 2021 and after allowing for the impact of the \$1.7 billion debt redemption in January 2022, are shown below:

\$ billion	Shareholder basis				Total regulatory basis			
	GMCR basis		GPCR basis		GMCR basis		GPCR basis	
	As disclosed	Impact of HK RBC & C-ROSS II	Post regulatory updates	Post regulatory updates	As disclosed	Impact of HK RBC & C-ROSS II	Post regulatory updates	Post regulatory updates
Capital resources	15.2	+10.3	25.5	25.5	42.7	(0.7)	42.0	42.0
Required capital	3.7	+1.0	4.7	8.0	10.7	+0.4	11.1	20.6
GWS capital surplus	11.5	+9.3	20.8	17.5	32.0	(1.1)	30.9	21.4
GWS coverage ratio	408%	+137%	545%	320%	398%	-20%	378%	204%

The Hong Kong RBC framework requires liabilities to be valued on a best estimate basis and capital requirements to be risk-based, resulting in the release of prudent regulatory margins previously included in liabilities and an increase in required capital. In addition the shareholder position also recognises the value of future shareholder transfers from participating business on an economic basis within the capital resources along with an associated required capital. In total this results in a material increase in the GWS shareholder capital resources and required capital as presented above.

At a GWS total regulatory level, after including the contribution from participating business, the introduction of the Hong Kong RBC framework results in a fall in capital resources. The impact on the shareholder position as noted above is more than offset by the Hong Kong RBC framework requirement to reflect future discretionary policyholder bonuses within the participating business liabilities which were previously treated as capital.

In addition to the regulatory changes discussed above, the Hong Kong IA issued guidance in the first half of 2022 on the classification of GWS Tier 1 group capital and the GMCR that should be assessed against this Tier 1 group capital, in particular to ensure that participating business capital resources that are not classified as Tier 1 group capital by the application of local rules, do not attract a corresponding GMCR. Applying this guidance at 31 December 2021 would reduce the total regulatory GMCR presented above of \$11.1 billion by \$(4.6) billion to \$6.5 billion with no impact on the GPCR.

Estimated GWS capital position

As at 31 December 2022, the estimated shareholder GWS capital surplus over the GPCR is \$15.6 billion (31 December 2021: \$17.5 billion), representing a coverage ratio of 307 per cent (31 December 2021: 320 per cent) and the estimated total GWS capital surplus over the GPCR is \$18.1 billion (31 December 2021: \$21.4 billion), representing a coverage ratio of 202 per cent (31 December 2021: 204 per cent). The estimated Group Tier 1 capital resources are \$17.4 billion with headroom over the GMCR of \$12.1 billion (31 December 2021: \$14.9 billion), representing a coverage ratio of 328 per cent (31 December 2021: 328 per cent).

	31 Dec 2022 ^{note (4)}			31 Dec 2021 ^{note(1)}			Change in total note (6)
	Shareholder	Add policyholder note (3)	Total note (5)	Shareholder	Add policyholder note (3)	Total note (5)	
Group capital resources (\$bn)	23.2	12.6	35.8	25.5	16.5	42.0	(6.2)
of which: Tier 1 capital resources (\$bn) ^{note (2)}	15.9	1.5	17.4	17.9	3.5	21.4	(4.0)
Group Minimum Capital Requirement (\$bn)	4.4	0.9	5.3	4.7	1.8	6.5	(1.2)
Group Prescribed Capital Requirement (\$bn)	7.6	10.1	17.7	8.0	12.6	20.6	(2.9)
GWS capital surplus over GPCR (\$bn)	15.6	2.5	18.1	17.5	3.9	21.4	(3.3)
GWS coverage ratio over GPCR (%)	307%		202%	320%		204%	(2)%
GWS Tier 1 surplus over GMCR (\$bn)			12.1			14.9	(2.8)
GWS Tier 1 coverage ratio over GMCR (%)			328%			328%	–

Notes

- (1) All 31 December 2021 GWS capital results reflect the impact of the regulatory updates discussed in the section above and are after allowing for the impact of the \$1.7 billion debt redemption in January 2022.
- (2) The classification of tiering of capital under the GWS framework reflects the different local regulatory regimes along with guidance issued by the Hong Kong IA. At 31 December 2022, total Tier 1 capital resources of \$17.4 billion comprises: \$23.2 billion of total shareholder capital resources; less \$(4.0) billion of Prudential plc issued sub-ordinated and senior Tier 2 debt capital; less \$(3.3) billion of local regulatory tiering classifications in Singapore and the Chinese Mainland which are classified as GWS Tier 2 capital resources; plus \$1.5 billion of Tier 1 capital resources in policyholder funds.
- (3) This allows for any associated diversification impacts between the shareholder and policyholder positions reflected in the total company results where relevant.
- (4) The 31 December 2022 GWS capital results do not reflect the impact of the redemption of \$0.4 billion of senior debt in January 2023. Allowing for this redemption reduces the estimated shareholder GWS capital surplus over GPCR to \$15.2 billion with a coverage ratio of 302 per cent and reduces the estimated total GWS capital surplus over GPCR to \$17.7 billion with a coverage ratio of 200 per cent. The total GWS Tier 1 over GMCR capital position is unaffected by this redemption.
- (5) The total company GWS coverage ratio over GPCR presented above represents the eligible group capital resources coverage ratio as set out in the GWS framework while the total company GWS tier 1 coverage ratio over GMCR represents the tier 1 group capital coverage ratio.
- (6) Refer to section on Material changes in GMCR, GPCR, tier 1 group capital and eligible group capital resources below.

GWS sensitivity analysis

The estimated sensitivity of the GWS capital position (based on the GPCR) to changes in market conditions as at 31 December 2022 is shown below, for both the shareholder and the total capital position.

Impact of market sensitivities	31 Dec 2022			
	Shareholder		Total	
	Surplus (\$bn)	Coverage ratio	Surplus (\$bn)	Coverage ratio
Base position	15.6	307%	18.1	202%
Impact of:				
10% increase in equity markets	0.3	(3)%	1.2	1%
20% fall in equity markets	(1.9)	(14)%	(3.6)	(12)%
50 basis points reduction in interest rates	0.4	4%	0.0	0%
100 basis points increase in interest rates	(1.1)	(15)%	(0.6)	(3)%
100 basis points increase in credit spreads	(0.8)	(9)%	(1.2)	(6)%

The sensitivity results above reflect the impact on the Group's long-term business operations at 31 December 2022. The sensitivity results assume instantaneous market movements and reflect all consequential impacts as at the valuation date. These results also allow for limited management actions such as changes to future policyholder bonuses and rebalancing investment portfolios where relevant. If such economic conditions persisted, the financial impacts may differ to the instantaneous impacts shown above. In this case, management could also take additional actions to help mitigate the impact of these stresses. These actions include, but are not limited to, market risk hedging, further rebalancing of investment portfolios, increased use of reinsurance, repricing of in-force benefits, changes to new business pricing and the mix of new business being sold.

GWS Risk Appetite and capital management

The Group's capital management framework focuses on achieving sustainable, profitable growth and retaining a resilient balance sheet.

The Group monitors regulatory capital, economic capital and rating agency capital metrics and manages the business within its risk appetite by remaining within its economic and regulatory capital limits. In respect of regulatory capital limits, a capital buffer above the GPCR is held to ensure the Group can withstand volatility in markets and operational experience, with capital resources remaining sufficient to cover the GPCR even after significant stresses. The calibration of the capital buffer reflects the Group's risk profile and the external economic environment, and is set and reviewed regularly by the Board.

Typically, this requires a Group shareholder coverage ratio of above 150 per cent of the shareholder GPCR to be maintained and de-risking management actions will be taken as necessary to maintain this buffer. No maximum limit on the GWS coverage ratio has been set. While the GWS shareholder capital position is a key metric for assessing regulatory solvency, and for risk management, there are some elements of the shareholder GWS capital surplus which will only become available as cash flow for distribution over time. The Group's Free Surplus metric is a better measure of the shareholder capital available for distribution, and is used as the primary metric for assessing the Group's sources and uses of capital in the Group's capital management framework, and underpinning the Group's dividend policy.

At 31 December 2022, the Group's Free Surplus stock (excluding distribution rights and other intangibles) was \$8.4 billion, compared to the GWS shareholder surplus of \$15.6 billion and a reconciliation is shown below. A projection of expected Free Surplus generation for the next 40 years is shown in Section I(vi) of this Group's 2022 annual report, for in-force business and separately for current year's new business.

The uses of capital, for both organic and inorganic opportunities, are assessed by reference to expected shareholder returns and payback periods, relative to risk-adjusted hurdle rates which are set centrally.

Reflecting the Group's capital allocation priorities, a portion of the free surplus generated in each period will be retained for reinvestment in the business, and dividends will be determined primarily based on the Group's operating free surplus generation after allowing for the capital strain of writing new business and recurring central costs (on a right-sized basis). To the extent that free surplus arises which is not required to support organic and inorganic growth opportunities, consideration will be given to returning capital to shareholders.

Separate from the capital management framework applied for shareholder-owned capital, the capital held in ring-fenced with-profits funds supports policyholder investment freedom, which increases expected returns for our with-profits funds' customers. GWS policyholder capital surplus is not available for distribution out of the ring-fenced funds other than as a defined proportion distributable to shareholders when policyholder bonuses are declared. Policyholder fund capital surplus is deployed over time to increase investment risk in the with-profits funds in order to target higher customer returns, or distributed as higher customer bonuses, in line with the specific with-profits bonus policies which apply to each ring-fenced fund. The result of applying these policies is that the aggregate policyholder fund GPCR coverage ratio is typically lower than the GPCR shareholder coverage ratio.

The total GWS coverage ratio, which is an aggregate of the policyholder and shareholder capital positions, is therefore usually lower than the shareholder coverage ratio, but also less sensitive in stress scenarios, as is shown in the GWS sensitivity analysis section above as at 31 December 2022. The total GWS coverage ratio is the Group's regulatory solvency metric to which Group supervision applies, and this total regulatory coverage ratio is managed to ensure it remains above the GPCR by applying separate shareholder and policyholder risk appetite limits, as described above.

Analysis of movement in total regulatory GWS capital surplus (over GPCR)

A summary of the movement in the restated 31 December 2021 regulatory GWS capital surplus (over GPCR) of \$21.4 billion to \$18.1 billion at 31 December 2022 is set out in the table below.

	2022 \$bn
Total GWS surplus at 1 Jan (over GPCR) (Post regulatory updates)	21.4
Shareholder free surplus generation	
In force operating capital generation	2.0
Investment in new business	(0.6)
Total operating free surplus generation	1.4
External dividends	(0.5)
Non-operating movements (including market movements)	(1.9)
Other capital movements (including foreign exchange movements)	(0.5)
Movement in free surplus (see EEV basis results for further detail)	(1.5)
Other movements in GWS shareholder surplus (not included in free surplus)	(0.4)
Movement in contribution from GWS policyholder surplus (over GPCR)	(1.4)
Net movement in GWS capital surplus (over GPCR)	(3.3)
Total GWS surplus at 31 Dec (over GPCR)	18.1

Further detail on the movement in free surplus of \$(1.5) billion is included in the Financial review section of the Strategic report and in the Movement in Group free surplus section of the Group's EEV basis results. Other GWS movements which are not reflected in EEV Free Surplus relate to a \$(0.5) billion movement in the items in the Reconciliation of free surplus to GWS capital surplus presented below, partially offset by a \$0.1 billion benefit from the exclusion of the movement in distribution rights and other intangibles from the GWS surplus, as these are expensed on day one under the GWS requirements.

Material changes in GMCR, GPCR, tier 1 group capital and eligible group capital resources

The GWS guidelines on external disclosures for supervised groups requires detail to be provided on any material changes in GPCR, GMCR, eligible group capital resources and tier 1 group capital along with the reason for such changes.

- Total eligible capital resources has decreased by \$(6.2) billion to \$35.8 billion at 31 December 2022 (31 December 2021: \$42.0 billion). This includes a \$(4.0) billion decrease in tier 1 group capital to \$17.4 billion (31 December 2021: \$21.4 billion). The fall in total eligible capital resources and tier 1 group capital are primarily driven by market movements over the year, driven largely by falling equity markets and increasing interest rates, and external dividends paid, partially offset by the positive contribution from operating capital generation.
- Total regulatory GPCR has decreased by \$(2.9) billion to \$17.7 billion at 31 December 2022 (31 December 2021: \$20.6 billion) and the total regulatory GMCR has decreased by \$(1.2) billion to \$5.3 billion at 31 December 2022 (31 December 2021: \$6.5 billion). The fall in GPCR and GMCR are primarily driven by market movements over the year and the release of capital as the policies mature or are surrendered, partially offset by an increase as a result of new business sold over the year.

Reconciliation of Free Surplus[†] to total regulatory GWS capital surplus (over GPCR)

	31 Dec 2022 \$bn		
	Capital resources	Required capital	Surplus
Free surplus excluding distribution rights and other intangibles [†]	13.9	5.5	8.4
Restrictions applied in free surplus for China C-ROSS II ^{note (a)}	2.1	1.5	0.6
Restrictions applied in free surplus for HK RBC ^{note (b)}	5.3	0.6	4.7
Restrictions applied in free surplus for Singapore RBC ^{note (c)}	1.9	0.1	1.8
Other	0.0	(0.1)	0.1
Add GWS policyholder surplus contribution	12.6	10.1	2.5
Total regulatory GWS capital surplus (over GPCR)	35.8	17.7	18.1

[†] As per the "Free surplus excluding distribution rights and other intangibles" shown in the statement of Movement in Group free surplus of the Group's EEV basis results.

Notes

- Free surplus applies the embedded value reporting approach issued by the China Association of Actuaries (CAA) in the Chinese Mainland and includes a requirement to establish a deferred profit liability within EEV net worth which leads to a reduction in EEV free surplus as compared to the C-ROSS II surplus reported for local regulatory purposes. Further differences relate to the treatment of subordinated debt within CPL which is excluded from EEV free surplus and which contributes to C-ROSS II surplus for local regulatory reporting.
- EEV free surplus for Hong Kong under the HK RBC regime excludes regulatory surplus that is not considered distributable immediately. This includes HK RBC technical provisions that are lower than policyholder asset shares or cash surrender floors as well as the value of future shareholder transfers from participating business (net of associated required capital) which are included in the shareholder GWS capital position.
- EEV free surplus for Singapore is based on the Tier 1 requirements under the RBC2 framework, which excludes certain negative reserves permitted to be recognised in the full RBC 2 regulatory position used when calculating the GWS capital surplus (over GPCR).

Reconciliation of Group IFRS shareholders' equity to Group total GWS capital resources

	31 Dec 2022 \$bn
Group IFRS shareholders' equity	17.0
Remove DAC, goodwill and intangibles recognised on the IFRS statement of financial position	(7.8)
Add debt treated as capital under GWS ^{note (a)}	4.0
Asset valuation differences ^{note (b)}	(0.3)
Liability valuation (including insurance contracts) differences ^{note (c)}	9.2
Differences in associated net deferred tax liabilities ^{note (d)}	1.3
Other ^{note (e)}	(0.2)
Contribution from Policyholder business	12.6
Group total GWS capital resources	35.8

Notes

- As per the GWS Framework, debt in issuance at the date of designation that satisfy the criteria for transitional arrangements and qualifying debt issued since the date of designation are included as Group capital resources but are treated as liabilities under IFRS.
- Asset valuation differences reflect differences in the basis of valuing assets between IFRS and local statutory valuation rules, including deductions for inadmissible assets. Differences include for some markets where government and corporate bonds are valued at book value under local regulations but are valued at market value under IFRS.
- Liability valuation differences reflect differences in the basis of valuing liabilities between IFRS and local statutory valuation rules. Material differences include in Hong Kong, Singapore and the Chinese Mainland where the local capital resources under the local risk-based capital solvency bases permits the recognition of certain negative reserves in the local statutory position that are not fully recognised under IFRS. This also includes the present value of future shareholder transfers from Hong Kong participating business which is included as an asset within the GWS capital resources.
- Differences in associated net deferred tax liabilities mainly results from the tax impact of changes in the valuation of assets and liabilities.
- Other differences include the removal of DAC and intangibles of the Group's joint ventures and associates and, in Chinese Mainland, a difference from the inclusion of subordinated debt as local capital resources on a C-ROSS II basis as compared to being held as a liability under IFRS.

Basis of preparation for the Group GWS capital position

Prudential applies the Insurance (Group Capital) Rules set out in the GWS Framework to determine group regulatory capital requirements (both minimum and prescribed levels). The summation of local statutory capital requirements across the Group is used to determine group regulatory capital requirements, with no allowance for diversification between business operations. The GWS eligible group capital resources is determined by the summation of capital resources across local solvency regimes for regulated entities and IFRS shareholders' equity (with adjustments described below) for non-regulated entities.

In determining the GWS eligible group capital resources and required capital the following principles have been applied:

- For regulated insurance entities, capital resources and required capital are based on the local solvency regime applicable in each jurisdiction, with minimum required capital set at the solo legal entity statutory minimum capital requirements and prescribed capital requirement set at the level at which the local regulator of a given entity can impose penalties, sanctions or intervention measures;
- The classification of tiering of eligible capital resources under the GWS framework reflects the different local regulatory regimes along with guidance issued by the Hong Kong IA. In general, if a local regulatory regime applies a tiering approach then this should be used to determine tiering of capital on a GWS capital basis, where a local regulatory regime does not apply a tiering approach then all capital resources should be included as Group Tier 1 capital. For non-regulated entities tiering of capital is determined in line with the Insurance (Group Capital) Rules.
- For asset management operations and other regulated entities, the capital position is derived based on the sectoral basis applicable in each jurisdiction, with minimum required capital based on the solo legal entity statutory minimum capital requirement;
- For non-regulated entities, the capital resources are based on IFRS shareholder equity after deducting intangible assets. No required capital is held in respect of unregulated entities;
- For entities where the Group's shareholding is less than 100 per cent, the contribution of the entity to the GWS eligible group capital resources and required capital represents the Group's share of these amounts and excludes any amounts attributable to non-controlling interests. This does not apply to investment holdings which are not part of the Group;
- Following the demerger of Jackson from Prudential plc in September 2021, the Group retains a non-controlling interest in Jackson. As agreed with the Hong Kong IA, this retained interest is included within the GWS eligible group capital resources valued at 60 per cent of the listed market value and contributes \$0.2 billion to the GWS capital surplus (over GPCR) at 31 December 2022;
- Investments in subsidiaries, joint ventures and associates (including, if any, loans that are recognised as capital on the receiving entity's balance sheet) are eliminated from the relevant holding company to prevent the double counting of capital resources;
- Under the GWS Framework, debt instruments in issuance at the date of designation that satisfy the criteria for transitional arrangements and qualifying debt issued since the date of designation are included in eligible group capital resources as tier 2 group capital. At 31 December 2022 all debt instruments with the exception of the senior debt issued in 2022 are included as Group capital resources. The eligible amount permitted to be included as Group capital resources for transitional debt is based on the net proceeds amount translated using 31 December 2020 exchange rates for debt not denominated in US dollars;
- The total company GWS capital basis is the capital measure for Hong Kong IA Group regulatory purposes as set out in the GWS framework. This framework defines the eligible group capital resources coverage ratio (or total company GWS coverage ratio over GPCR as presented above) as the ratio of total company eligible group capital resources to the total company GPCR and defines the tier 1 group capital coverage ratio (or total company GWS tier 1 coverage ratio over GMCR as presented above) as the ratio of total company tier 1 group capital to the total company GMCR; and
- Prudential also presents a shareholder GWS capital basis which excludes the contribution to the Group GWS eligible group capital resources, the GMCR and GPCR from participating business in Hong Kong, Singapore and Malaysia. In Hong Kong the present value of future shareholder transfers from the participating business are included in the shareholder GWS eligible capital resources along with an associated required capital, this is in line with the local solvency presentation. The shareholder GWS coverage ratio over GPCR presented above reflects the ratio of shareholder eligible group capital resources to the shareholder GPCR.

I(ii) Analysis of adjusted operating profit by driver

This schedule classifies the Group's adjusted operating profit into the underlying drivers using the following categories:

- **Spread income** represents the difference between net investment income and amounts credited to certain policyholder accounts. It excludes the operating investment return on shareholder net assets, which has been separately disclosed as expected return on shareholder assets.
- **Fee income** represents profit driven by net investment performance, being fees that vary with the size of the underlying policyholder funds, net of investment management expenses.
- **With-profits** represents the pre-tax shareholders' transfer from the with-profits business for the period.
- **Insurance margin** primarily represents profit derived from the insurance risks of mortality and morbidity.
- **Margin on revenues** primarily represents amounts deducted from premiums to cover acquisition costs and administration expenses (see below).
- **Acquisition costs and administration expenses** represent expenses incurred in the period attributable to shareholders. These exclude items such as restructuring and IFRS 17 implementation costs, which are not included in the segment profit, as well as items that are more appropriately included in other categories (eg investment expenses are netted against investment income as part of spread income or fee income as appropriate).
- **DAC adjustments** comprise DAC amortisation for the period, excluding amounts related to short-term fluctuations in investment returns, net of costs deferred in respect of new business written in the period.

The following analysis expresses certain of the Group's sources of adjusted operating profit as a margin of policyholder liabilities or other relevant drivers. The 2021 comparative information has been presented at both AER and CER to eliminate the impact of exchange translation.

	2022			2021 AER			2021 CER		
	Profit \$m	Average liability \$m	Margin bps	Profit \$m	Average liability \$m	Margin bps	Profit \$m	Average liability \$m	Margin bps
		note (a)	note (b)		note (a)	note (b)		note (a)	note (b)
Spread income	307	42,722	72	312	47,270	66	299	46,137	65
Fee income	331	32,295	102	345	33,401	103	329	32,062	103
With-profits	160	81,405	20	135	84,905	16	133	84,435	16
Insurance margin	3,219			2,897			2,795		
Margin on revenues	3,194			3,008			2,881		
Expenses:									
Acquisition costs ^{note (c)}	(2,346)	4,393	(53)%	(2,085)	4,194	(50)%	(2,000)	4,013	(50)%
Administration expenses	(1,732)	75,354	(230)	(1,656)	80,968	(205)	(1,581)	78,472	(201)
DAC adjustments	554			566			545		
Expected return on shareholder assets	235			231			224		
	3,922			3,753			3,625		
Share of related tax charges from joint ventures and associates ^{note (d)}	(76)			(44)			(42)		
Long-term business	3,846			3,709			3,583		
Eastspring	260			314			299		
Adjusted operating profit	4,106			4,023			3,882		

Notes

- The calculation of average liabilities is generally derived from opening and closing balances, except the average liabilities used to derive fee income margin which is calculated using quarter-end balances to provide a more meaningful analysis. Other than the average liabilities used to calculate the administration expense margin, the average liabilities in the analysis above exclude the liabilities for the Africa operations.
- Margin represents the operating return earned in the year as a proportion of the relevant class of policyholder liabilities excluding unallocated surplus.
- The ratio of acquisition costs is calculated as a percentage of APE sales in the year, including with-profits sales. Acquisition costs include only those relating to shareholder-backed business. The ratio of shareholder acquisition costs to shareholder APE sales (excluding with-profits) in 2022 is 62 per cent (2021: 61 per cent on both AER and CER basis).
- Under IFRS, the Group's share of results from its investments in joint ventures and associates accounted for using the equity method is included as a single line in the Group's profit before tax on a net of related tax basis. In the table above, the results of the joint ventures and associates are analysed by adjusted operating profit drivers and on a pre-tax basis, with related tax charges shown separately in order for the contribution from the joint ventures and associates to be included in the profit driver and margin analysis on a consistent basis with the rest of the business operations.

(iii) Analysis of adjusted operating profit by business unit

The table below presents the 2021 results on both AER and CER bases to eliminate the impact of exchange translation.

	2022 \$m	2021 \$m		2022 vs 2021 %	
		AER	CER	AER	CER
CPL	368	343	329	7%	12%
Hong Kong	1,036	975	969	6%	7%
Indonesia	343	446	429	(23)%	(20)%
Malaysia	364	350	330	4%	10%
Singapore	678	663	646	2%	5%
Growth markets and other					
Philippines	112	110	100	2%	12%
Taiwan	93	94	88	(1)%	6%
Thailand	266	236	215	13%	24%
Vietnam	327	317	310	3%	5%
Other*	335	219	210	53%	60%
Share of related tax charges from joint ventures and associate	(76)	(44)	(42)	73%	81%
Long-term business	3,846	3,709	3,584	4%	7%
Eastspring	260	314	299	(17)%	(13)%
Adjusted operating profit	4,106	4,023	3,883	2%	6%

* Includes other growth markets and a number of small items that are not expected to reoccur.

(a) Eastspring adjusted operating profit

	2022 \$m	2021 \$m
Operating income before performance-related fees ^{note (1)}	660	747
Performance-related fees	1	15
Operating income (net of commission) ^{note (2)}	661	762
Operating expense ^{note (2)}	(360)	(403)
Group's share of tax on joint ventures' operating profit	(41)	(45)
Adjusted operating profit	260	314
Average funds managed or advised by Eastspring	\$229.4bn	\$251.7bn
Margin based on operating income ^{note (3)}	29bps	30bps
Cost/income ratio ^{note 11(v)}	55%	54%

Notes

(1) Operating income before performance-related fees for Eastspring can be further analysed as follows (institutional below includes internal funds under management or under advice):

	Retail \$m	Margin bps	Institutional \$m	Margin bps	Total \$m	Margin bps
2022	392	54	268	17	660	29
2021	449	56	298	17	747	30

(2) Operating income and expense include the Group's share of contribution from joint ventures. In the consolidated income statement of the Group IFRS financial results, the net income after tax of the joint ventures and associates is shown as a single line item.

(3) Margin represents operating income before performance-related fees as a proportion of the related funds under management or advice. Monthly closing internal and external funds managed or advised by Eastspring have been used to derive the average. Any funds held by the Group's insurance operations that are not managed or advised by Eastspring are excluded from these amounts.

(b) Eastspring total funds under management or advice

Eastspring manages funds from external parties and also funds for the Group's insurance operations. In addition, Eastspring advises on certain funds for the Group's insurance operations where the investment management is delegated to third-party investment managers. The table below analyses the total funds managed or advised by Eastspring.

	31 Dec 2022 \$bn	31 Dec 2021 \$bn
External funds under management, excluding funds managed on behalf of M&G plc ^{note (1)}		
Retail	60.1	68.5
Institutional	11.3	13.2
Money market funds (MMF)	10.5	12.3
	81.9	94.0
Funds managed on behalf of M&G plc ^{note (2)}	9.3	11.5
External funds under management	91.2	105.5
Internal funds:		
Internal funds under management	104.1	124.2
Internal funds under advice	26.1	28.8
	130.2	153.0
Total funds under management or advice^{note (3)}	221.4	258.5

Notes

(1) Movements in external funds under management, excluding those managed on behalf of M&G plc, are analysed below:

	2022 \$m	2021 \$m
At 1 Jan	93,956	93,863
Market gross inflows	81,942	98,963
Redemptions	(84,397)	(99,862)
Market and other movements	(9,552)	992
At 31 Dec	81,949	93,956

* The analysis of movements above includes \$10,495 million relating to Asia Money Market Funds at 31 December 2022 (31 December 2021: \$12,248 million). Investment flows for 2022 include Eastspring Money Market Funds gross inflows of \$61,063 million (2021: \$61,949 million) and net outflows of \$(869) million (2021: net outflows of \$(1,512) million).

(2) Movements in funds managed on behalf of M&G plc are analysed below:

	2022 \$m	2021 \$m
At 1 Jan	11,529	15,737
Net flows	(765)	(4,040)
Market and other movements	(1,529)	(168)
At 31 Dec	9,235	11,529

(3) Total funds under management or advice are analysed by asset class below:

	31 Dec 2022						31 Dec 2021	
	Funds under management		Funds under advice		Total		Total	
	\$bn	% of Total	\$bn	% of Total	\$bn	% of total	\$bn	% of total
Equity	92.9	42%	7.8	4%	100.7	46%	107.1	41%
Fixed income	86.4	39%	18.3	8%	104.7	47%	133.6	52%
Alternatives	2.4	1%	–	–	2.4	1%	2.7	1%
Money Market Funds	13.6	6%	–	–	13.6	6%	15.1	6%
Total funds	195.3	88%	26.1	12%	221.4	100%	258.5	100%

(iv) Group funds under management

For Prudential's asset management businesses, funds managed on behalf of third parties are not recorded on the balance sheet. They are, however, a driver of profitability. Prudential therefore analyses the movement in the funds under management each year, focusing on those which are external to the Group and those primarily held by the Group's insurance businesses. The table below analyses the funds of the Group held in the balance sheet and the external funds that are managed by Prudential's asset management businesses.

	31 Dec 2022 \$bn	31 Dec 2021 \$bn
Internal funds	168.6	193.9
Eastspring external funds, including M&G plc (as analysed in note I(iii) above)	91.2	105.5
Total Group funds under management^{note}	259.8	299.4

Note

Total Group funds under management comprise:

	31 Dec 2022 \$bn	31 Dec 2021 \$bn
Total investments and cash and cash equivalents held on the balance sheet	151.5	177.9
External funds of Eastspring including M&G plc	91.2	105.5
Internally managed funds held in joint ventures and associates, excluding assets attributable to external unit holders of the consolidated collective investment schemes and other adjustments	17.1	16.0
Total Group funds under management	259.8	299.4

I(v) Holding company cash flow

The holding company cash flow describes the movement in the cash and short-term investments of the centrally managed group holding companies and differs from the IFRS cash flow statement, which includes all cash flows in the year including those relating to both policyholder and shareholder funds. The holding company cash flow is therefore a more meaningful indication of the Group's central liquidity.

	2022 \$m	2021 \$m
Net cash remitted by business units ^{note (a)}	1,304	1,451
Net interest paid	(204)	(314)
Corporate expenditure ^{note (b)}	(232)	(322)
Centrally funded recurring bancassurance fees	(220)	(176)
Total central outflows	(656)	(812)
Holding company cash flow before dividends and other movements	648	639
Dividends paid	(474)	(421)
Operating holding company cash flow after dividends but before other movements	174	218
Other movements		
Issuance and redemption of debt	(1,729)	(255)
Hong Kong public offer and international placing	–	2,374
Other corporate activities ^{note (c)}	248	(199)
US demerger costs	–	(30)
Total other movements	(1,481)	1,890
Net movement in holding company cash flow	(1,307)	2,108
Cash and short-term investments at 1 Jan ^{note (d)}	3,572	1,463
Foreign exchange movements	(113)	1
Inclusion of amounts at 31 Dec from additional centrally managed entities ^{note (e)}	905	–
Cash and short-term investments at 31 Dec ^{note (e)}	3,057	3,572

Notes

- (a) Net cash remitted by business units comprise dividends and other transfers, net of capital injections, that are reflective of earnings and capital generation.
- (b) Including IFRS 17 implementation and restructuring costs paid in the year
- (c) Other cash flow movements included net receipts from other corporate activities of \$248 million (2021: \$(256) million net payments) comprising proceeds of \$315 million (2021: \$171 million) received from the sales of shares in Jackson together with dividends from Jackson, partially offset by cash provided for investment by the businesses mainly in digital infrastructure.
- (d) Proceeds from the Group's commercial paper programme are not included in the holding company cash and short-term investments balance.
- (e) The definition of holding company cash and short-term investments has been updated, with effect from 31 December 2022, following the combination of the Group's London office and Asia regional office into a single Group Head Office in 2022. This updated definition includes all cash and short-term investments held by central holding and service companies, including amounts previously managed on a regional basis. These balances are now being centrally managed by the Group's Treasury function. This refinement increased holding company cash and short-term investment balances by \$0.9 billion at 31 December 2022.

The table below shows the reconciliation of the Cash and cash equivalents of Unallocated to a segment (Central operations) held on the IFRS balance sheet and Cash and short-term investments at 31 December 2022:

	31 Dec 2022 \$m
Cash and cash equivalents of Central operations held on balance sheet ^{note C1}	1,809
Less: amounts from commercial paper	(501)
Add: Deposits with credit institutions of Central operations held on balance sheet ^{note C1}	1,749
Cash and short-term investments	3,057

(vi) Reconciliation of EEV expected transfer of value of in-force business and required capital to free surplus

The table below shows how the EEV value of in-force business (VIF) and the associated required capital for long-term insurance business operations are projected as emerging into free surplus over the next 40 years. Although circa 6 per cent of the embedded value emerges after this date, analysis of cash flows emerging in the years shown is considered most meaningful. The modelled cash flows use the same methodology underpinning the Group's embedded value reporting and so are subject to the same assumptions and sensitivities used to prepare our 2022 results.

In addition to showing the amounts, on both a discounted and undiscounted basis, expected to be generated from all in-force business at 31 December 2022, the table also presents the future free surplus expected to be generated from the investment made in new business during 2022 over the same 40-year period.

Expected period of emergence	31 Dec 2022 \$m			
	Long-term insurance business operations			
	Expected generation from all in-force business*		Expected generation from new business written in 2022*	
	Undiscounted	Discounted	Undiscounted	Discounted
2023	2,658	2,548	352	336
2024	2,327	2,089	227	200
2025	2,201	1,857	204	170
2026	2,155	1,710	174	138
2027	2,087	1,560	188	138
2028	2,010	1,416	181	125
2029	1,946	1,292	161	105
2030	1,905	1,191	153	93
2031	1,884	1,107	146	83
2032	1,857	1,032	158	85
2033	1,858	969	159	79
2034	1,843	910	148	69
2035	1,860	868	154	68
2036	1,867	825	142	60
2037	1,877	788	158	62
2038	1,888	749	137	51
2039	1,924	720	136	49
2040	1,947	688	139	47
2041	1,953	653	136	44
2042	1,943	614	145	44
2043-2047	9,769	2,594	695	183
2048-2052	9,986	1,951	687	134
2053-2057	9,842	1,382	648	98
2058-2062	9,929	983	637	72
Total free surplus expected to emerge in the next 40 years	79,516	30,496	6,065	2,533

* The analysis excludes amounts incorporated into VIF and required capital at 31 December 2022 where there is no definitive time frame for when the payments will be made or receipts received. It also excludes any free surplus projected to emerge after 2062.

The expected free surplus generation from new business written in 2022 can be reconciled to the new business profit as follows:

	2022 \$m
Undiscounted expected free surplus generation for years 2023 to 2062	6,065
Less: discount effect	(3,532)
Discounted expected free surplus generation for years 2023 to 2062	2,533
Discounted expected free surplus generation for years after 2062	135
Discounted expected free surplus generation from new business written in 2022	2,668
Free surplus investment in new business	(567)
Other items*	83
New business profit	2,184

* Other items represent the impact of the TVOG on new business, foreign exchange effects and other non-modelled items. Foreign exchange effects arise as EEV new business profit amounts are translated at average exchange rates and the expected free surplus generation is translated at closing rates.

The discounted expected free surplus generation from in-force business can be reconciled to the embedded value for long-term business operations as follows:

	31 Dec 2022 \$m
Discounted expected generation from all in-force business for years 2023 to 2062	30,496
Discounted expected generation from all in-force business for years after 2062	2,152
Discounted expected generation from all in-force business at 31 December 2022	32,648
Free surplus of long-term business operations at 31 December 2022	6,035
Other items*	174
EEV for long-term business operations	38,857

* Other items represent the impact of the TVOG and other non-modelled items.

The undiscounted expected free surplus generation from all in-force business at 31 December 2022 can be reconciled to the amount that was expected to be generated at 31 December 2021 as follows:

	2022 \$m	2023 \$m	2024 \$m	2025 \$m	2026 \$m	2027 \$m	Other \$m	Total \$m
2021 expected free surplus generation for years 2022 to 2061	2,343	2,267	2,155	2,014	2,034	1,978	53,604	66,395
Less: Amounts expected to be realised in the current year	(2,343)	-	-	-	-	-	-	(2,343)
Add: Expected free surplus to be generated in year 2062 (excluding 2022 new business)	-	-	-	-	-	-	1,101	1,101
Foreign exchange differences	-	(93)	(85)	(72)	(70)	(66)	(1,242)	(1,628)
New business	-	352	227	204	174	188	4,920	6,065
Operating movements	-	48	(14)	39	20	(35)		
Non-operating and other movements*	-	84	44	16	(3)	22	9,705	9,926
2022 expected free surplus generation for years 2023 to 2062	-	2,658	2,327	2,201	2,155	2,087	68,088	79,516

* 'Non-operating and other movements' include the impact of the early adoption of the Hong Kong Risk-based Capital (HK RBC) regime, effective from 1 January 2022. Further details can be found in the Basis of Preparation in the EEV basis results.

At 31 December 2022, the total free surplus expected to be generated over the next five years (2023 to 2027 inclusive) for long-term business operations, using the same assumptions and methodology as those underpinning 2022 embedded value reporting, was \$11.4 billion (31 December 2021: \$10.8 billion).

At 31 December 2022, the total free surplus expected to be generated on an undiscounted basis over the next 40 years for long-term business operations is \$79.5 billion, \$13.1 billion higher than the \$66.4 billion expected at the end of 2021. The increase is driven by new business and the effect of generally higher interest rates across the region increasing projected returns, partially offset by unfavourable foreign exchange movements.

Actual underlying free surplus generated in 2022 from long-term business in force at the end of 2021, before restructuring and IFRS 17 implementation costs, was \$2.5 billion, after allowing for \$(0.2) billion of changes in operating assumptions and experience variances. This compares with the expected 2022 realisation at the end of 2021 of \$2.3 billion and can be analysed further as follows:

	2022 \$m
Expected transfer from in-force business to free surplus	2,406
Expected return on existing free surplus	347
Changes in operating assumptions and experience variances	(227)
Underlying free surplus generated from long-term business in force before restructuring and IFRS 17 implementation costs	2,526
2022 free surplus expected to be generated at 31 December 2021	2,343

(vii) New business schedules

The format of the schedules is consistent with the distinction between insurance and investment products as applied for previous reporting periods. Insurance products refer to those classified as contracts of long-term insurance business for local regulatory reporting purposes.

The details shown for insurance products include contributions from contracts that are classified under IFRS 4, 'Insurance Contracts', as not containing significant insurance risk. These products are described as investment contracts or other financial instruments under IFRS 4, primarily certain unit-linked and similar contracts written in insurance operations.

New business premiums reflect those premiums attaching to covered business, including premiums from contracts designed as investment contracts under IFRS reporting. Regular premium products are shown on an annualised basis.

Investment products referred to in the tables for funds under management are unit trusts, mutual funds and similar types of retail fund management arrangements. These are unrelated to insurance products that are classified as investment contracts under IFRS 4, as described in the preceding paragraph, although similar IFRS recognition and measurement principles apply to the acquisition costs and fees attaching to this type of business.

Annual premium equivalent (APE) and new business profit (NBP) are determined using the EEV methodology set out in note 8 of our EEV basis results supplement. In determining the EEV basis value of new business written in the period when policies incept, premiums are included at projected cash flows on the same basis of distinguishing regular and single premium business as set out for local statutory basis reporting. APE sales are subject to rounding.

Schedule A Insurance new business (AER and CER)

AER	Single premiums			Regular premiums			APE			PVNBP		
	2022 \$m	2021 \$m	+/(-) %	2022 \$m	2021 \$m	+/(-) %	2022 \$m	2021 \$m	+/(-) %	2022 \$m	2021 \$m	+/(-) %
CPL (Prudential's 50% share)	1,254	1,760	(29)%	759	600	27%	884	776	14%	3,521	3,761	(6)%
Hong Kong	842	808	4%	438	469	(7)%	522	550	(5)%	3,295	4,847	(32)%
Indonesia	250	258	(3)%	222	226	(2)%	247	252	(2)%	1,040	1,067	(3)%
Malaysia	99	74	34%	350	453	(23)%	359	461	(22)%	1,879	2,137	(12)%
Singapore	2,628	2,412	9%	507	502	1%	770	743	4%	6,091	6,214	(2)%
Growth markets:												
Africa	9	15	(40)%	148	133	11%	149	134	11%	308	288	7%
Cambodia	-	-	-	18	14	29%	18	14	29%	69	59	17%
India (Prudential's 22% share)	273	285	(4)%	196	200	(2)%	223	228	(2)%	1,148	1,172	(2)%
Laos	-	-	-	-	1	(100)%	-	1	(100)%	1	2	(50)%
Myanmar	-	-	-	3	1	200%	3	1	200%	6	3	100%
Philippines	61	89	(31)%	176	168	5%	182	177	3%	615	655	(6)%
Taiwan	157	172	(9)%	486	379	28%	503	397	27%	1,835	1,417	29%
Thailand	150	142	6%	220	204	8%	235	218	8%	932	882	6%
Vietnam	99	55	80%	288	237	22%	298	242	23%	1,666	1,649	1%
Total insurance operations	5,822	6,070	(4)%	3,811	3,587	6%	4,393	4,194	5%	22,406	24,153	(7)%

CER	Single premiums			Regular premiums			APE			PVNBP		
	2022 \$m	2021 \$m	+/(-) %	2022 \$m	2021 \$m	+/(-) %	2022 \$m	2021 \$m	+/(-) %	2022 \$m	2021 \$m	+/(-) %
CPL (Prudential's 50% share)	1,254	1,685	(26)%	759	575	32%	884	743	19%	3,521	3,602	(2)%
Hong Kong	842	802	5%	438	466	(6)%	522	546	(4)%	3,295	4,812	(32)%
Indonesia	250	249	0%	222	218	2%	247	243	2%	1,040	1,027	1%
Malaysia	99	70	41%	350	427	(18)%	359	434	(17)%	1,879	2,013	(7)%
Singapore	2,628	2,350	12%	507	489	4%	770	724	6%	6,091	6,056	1%
Growth markets:												
Africa	9	13	(31)%	148	124	19%	149	125	19%	308	266	16%
Cambodia	-	-	-	18	14	29%	18	14	29%	69	58	19%
India (Prudential's 22% share)	273	268	2%	196	188	4%	223	215	4%	1,148	1,102	4%
Laos	-	-	-	-	-	-	-	-	-	1	2	(50)%
Myanmar	-	-	-	3	1	200%	3	1	200%	6	3	100%
Philippines	61	80	(24)%	176	152	16%	182	160	14%	615	592	4%
Taiwan	157	162	(3)%	486	355	37%	503	372	35%	1,835	1,327	38%
Thailand	150	130	15%	220	186	18%	235	199	18%	932	806	16%
Vietnam	99	54	83%	288	232	24%	298	237	26%	1,666	1,615	3%
Total insurance operations	5,822	5,863	(1)%	3,811	3,427	11%	4,393	4,013	9%	22,406	23,281	(4)%

Schedule B Insurance new business APE and PVNBP (AER and CER)

APE	AER				CER			
	2022 \$m		2021 \$m		2022 \$m		2021 \$m	
	H1	H2	H1	H2	H1	H2	H1	H2
CPL (Prudential's 50% share)	507	377	448	328	488	396	430	313
Hong Kong	227	295	253	297	227	295	251	295
Indonesia	110	137	117	135	107	140	113	130
Malaysia	172	187	211	250	167	192	196	238
Singapore	390	380	379	364	386	384	366	358
Growth markets:								
Africa	76	73	66	68	72	77	62	63
Cambodia	7	11	7	7	7	11	7	7
India (Prudential's 22% share)	120	103	112	116	116	107	105	110
Laos	-	-	-	1	-	-	-	-
Myanmar	1	2	1	-	1	2	1	-
Philippines	87	95	90	87	84	98	80	80
Taiwan	281	222	187	210	269	234	175	197
Thailand	99	136	99	119	96	139	87	112
Vietnam	136	162	113	129	134	164	111	126
Total insurance operations	2,213	2,180	2,083	2,111	2,154	2,239	1,984	2,029

PVNBP	AER				CER			
	2022 \$m		2021 \$m		2022 \$m		2021 \$m	
	H1	H2	H1	H2	H1	H2	H1	H2
CPL (Prudential's 50% share)	2,119	1,402	2,038	1,723	2,040	1,481	1,958	1,644
Hong Kong	1,774	1,521	1,991	2,856	1,773	1,522	1,974	2,838
Indonesia	442	598	485	582	430	610	466	561
Malaysia	845	1,034	992	1,145	820	1,059	924	1,089
Singapore	3,184	2,907	2,940	3,274	3,152	2,939	2,841	3,215
Growth markets:								
Africa	151	157	144	144	144	164	133	133
Cambodia	30	39	30	29	30	39	30	28
India (Prudential's 22% share)	609	539	579	593	590	558	540	562
Laos	-	1	1	1	-	1	1	1
Myanmar	4	2	1	2	3	3	1	2
Philippines	297	318	340	315	284	331	301	291
Taiwan	994	841	662	755	958	877	622	705
Thailand	394	538	406	476	379	553	357	449
Vietnam	885	781	771	878	867	799	757	858
Total insurance operations	11,728	10,678	11,380	12,773	11,470	10,936	10,905	12,376

Note

Comparative results for the first half (H1) and second half (H2) of 2021 are presented on both actual exchange rates (AER) and constant exchange rates (CER). The H2 amounts are presented on year-to-date average exchange rates (including the effect of retranslating H1 results for movements in average exchange rates between H1 and the year-to-date).

Schedule C Insurance new business profit and margin (AER and CER)

	AER				CER			
	2022		2021		2022		2021	
	HY	FY	HY	FY	HY	FY	HY	FY
New business profit (\$m)								
CPL (Prudential's 50% share)	217	387	228	352	209	387	219	337
Hong Kong	211	384	306	736	211	384	303	731
Indonesia	52	125	57	125	50	125	55	120
Malaysia	70	159	113	232	67	159	105	219
Singapore	244	499	215	523	241	499	208	510
Growth markets and other	304	630	257	558	296	630	241	526
Total insurance business	1,098	2,184	1,176	2,526	1,074	2,184	1,131	2,443
New business margin (NBP as a % of APE)								
CPL	43%	44%	51%	45%	43%	44%	51%	45%
Hong Kong	93%	74%	121%	134%	93%	74%	121%	134%
Indonesia	47%	51%	49%	50%	47%	51%	49%	49%
Malaysia	41%	44%	54%	50%	40%	44%	54%	50%
Singapore	63%	65%	57%	70%	62%	65%	57%	70%
Growth markets and other	38%	39%	38%	40%	38%	39%	38%	40%
Total insurance business	50%	50%	56%	60%	50%	50%	57%	61%
New business margin (NBP as a % of PVNBP)								
CPL	10%	11%	11%	9%	10%	11%	11%	9%
Hong Kong	12%	12%	15%	15%	12%	12%	15%	15%
Indonesia	12%	12%	12%	12%	12%	12%	12%	12%
Malaysia	8%	8%	11%	11%	8%	8%	11%	11%
Singapore	8%	8%	7%	8%	8%	8%	7%	8%
Growth markets and other	9%	10%	9%	9%	9%	10%	9%	9%
Total insurance business	9%	10%	10%	10%	9%	10%	10%	10%

Schedule D Investment flows and FUM (AER)

	2022 \$m		2021 \$m	
	H1	H2	H1	H2
Eastspring:				
Third-party retail: ^{note}				
Opening FUM	68,516	58,407	66,838	67,903
Net flows:				
- Gross Inflows	11,050	8,504	17,491	17,065
- Redemptions	(12,808)	(8,520)	(18,281)	(15,148)
	(1,758)	(16)	(790)	1,917
Other movements	(8,351)	1,752	1,855	(1,304)
Closing FUM	58,407	60,143	67,903	68,516
Third-party institutional:				
Opening FUM	13,192	10,988	13,827	14,901
Net flows:				
- Gross Inflows	561	763	1,264	1,194
- Redemptions	(589)	(547)	(983)	(1,989)
	(28)	216	281	(795)
Other movements	(2,176)	107	793	(914)
Closing FUM	10,988	11,311	14,901	13,192
Total third-party closing FUM (excluding MMF and funds held on behalf of M&G plc)	69,395	71,454	82,804	81,708

Note

Mandatory Provident Fund (MPF) product flows in Hong Kong are included at Prudential's 36 per cent interest in the Hong Kong MPF business.

II Calculation of alternative performance measures

Prudential uses alternative performance measures (APMs) to provide more relevant explanations of the Group's financial position and performance. This section sets out explanations for each APM and reconciliations to relevant IFRS balances.

II(i) Reconciliation of adjusted operating profit to profit before tax

Adjusted operating profit presents the operating performance of the business. This measurement basis adjusts for the following items within total IFRS profit before tax:

- Short-term fluctuations in investment returns on shareholder-backed business;
- Amortisation of acquisition accounting adjustments arising on the purchase of business; and
- Gain or loss on corporate transactions.

More details on how adjusted operating profit is determined are included in note B1.2 of the Group IFRS consolidated financial statements. A full reconciliation to profit after tax is given in note B1.1 of the Group IFRS consolidated financial statements.

II(ii) Calculation of IFRS gearing ratio

IFRS gearing ratio is calculated as net core structural borrowings of shareholder-financed businesses divided by closing IFRS shareholders' equity plus net core structural borrowings.

	31 Dec 2022 \$m	31 Dec 2021 \$m
Core structural borrowings of shareholder-financed businesses	4,261	6,127
Less holding company cash and short-term investments	(3,057)	(3,572)
Net core structural borrowings of shareholder-financed businesses	1,204	2,555
Closing shareholders' equity	16,960	17,088
Closing shareholders' equity plus net core structural borrowings	18,164	19,643
IFRS gearing ratio	7%	13%

II(iii) Return on IFRS shareholders' equity

This measure is calculated as adjusted operating profit, after tax and non-controlling interests, divided by average shareholders' equity.

Detailed reconciliation of adjusted operating profit to IFRS profit before tax for the Group is shown in note B1.1 to the Group IFRS consolidated financial statements.

	2022 \$m	2021 \$m
Adjusted operating profit	3,375	3,233
Tax on adjusted operating profit	(614)	(548)
Adjusted operating profit attributable to non-controlling interests	(11)	(17)
Adjusted operating profit, net of tax and non-controlling interests	2,750	2,668
Shareholders' equity at 1 Jan	17,088	12,367
Shareholders' equity at 31 Dec	16,960	17,088
Average shareholders' equity	17,024	14,728
Operating return on average shareholders' equity (%)	16%	18%

II(iv) Calculation of IFRS shareholders' equity per share

IFRS shareholders' equity per share is calculated as closing IFRS shareholders' equity divided by the number of issued shares at the end of the year.

	31 Dec 2022	31 Dec 2021
Number of issued shares at the end of the year (million shares)	2,750	2,746
Closing IFRS shareholders' equity (\$ million)	16,960	17,088
Shareholders' equity per share (cents)	617¢	622¢

II(v) Calculation of Eastspring cost/income ratio

The cost/income ratio is calculated as operating expenses, adjusted for commissions and share of contribution from joint ventures and associates, divided by operating income, adjusted for commission, share of contribution from joint ventures and associates and performance-related fees.

	2022 \$m	2021 \$m
IFRS revenue	513	665
Share of revenue from joint ventures and associates	303	314
Commissions	(155)	(217)
Performance-related fees	(1)	(15)
Operating income before performance-related fees^{note}	660	747
IFRS charges	398	498
Share of expenses from joint ventures and associates	117	122
Commissions	(155)	(217)
Operating expense	360	403
Cost/income ratio (operating expense/operating income before performance-related fees)	55%	54%

Note

IFRS revenue and charges for Eastspring are included within the IFRS Income statement in 'other income' and 'acquisition costs and other expenditure' respectively. Operating income and expense include the Group's share of contribution from joint ventures and associates. In the Consolidated income statement of the Group IFRS consolidated financial statements, the net income after tax from the joint ventures and associates is shown as a single line item.

II(vi) Reconciliation of gross premiums earned to renewal insurance premiums

	2022 \$m	2021 \$m	
		AER	CER
IFRS gross premiums earned	23,344	24,217	23,546
Less: General insurance premium	(124)	(124)	(123)
Less: IFRS gross earned premium from new regular and single premium business	(6,807)	(6,500)	(6,243)
Add: Renewal premiums from joint ventures and associates ^{note}	2,262	2,295	2,182
Renewal insurance premiums	18,675	19,888	19,362
Annual premium equivalent (APE)	4,393	4,194	4,013
Life weighted premium income	23,068	24,082	23,375

Note

For the purpose of the definition of renewal premiums from joint ventures and associates in the table above, premiums for the deposit component of insurance contracts from CPL are excluded.

II(vii) Reconciliation of gross premiums earned to APE new business sales

The Group reports APE new business sales as a measure of the new policies sold in the year. APE is calculated as the aggregate of regular premiums and one-tenth of single premiums on new business written during the year for all insurance products, including premiums for contracts designated as investment contracts under IFRS 4. The use of the one-tenth of single premiums is to normalise policy premiums into the equivalent of regular annual payments. This measure is commonly used in the insurance industry to allow comparisons of the amount of new business written in a period by life insurance companies, particularly when the sales contain both single premium and regular premium business. This differs from the IFRS measure of gross premiums earned as shown below:

	2022 \$m	2021 \$m
Gross premiums earned	23,344	24,217
Less: premiums from in-force renewal business ^{note (a)}	(16,413)	(17,593)
Less: 90% of single premiums on new business sold in the year ^{note (b)}	(3,839)	(3,602)
Add: APE sales from joint ventures and associates on equity accounting method ^{note (c)}	1,182	1,104
Other adjustments ^{note (d)}	119	68
Annual premium equivalent (APE)	4,393	4,194

Notes

- Gross premiums earned include premiums from existing in-force business as well as new business given the Group's focus on recurring premium business.
- APE new business sales only include one-tenth of single premiums, recorded on policies sold in the year. Gross premiums earned include 100 per cent of such premiums.
- For the purpose of reporting APE new business sales, the Group's share of amounts sold by the Group's insurance joint ventures and associates are included. Under IFRS, joint ventures and associates are equity accounted and so no amounts are included within gross premiums earned.
- APE new business sales are annualised while gross premiums earned are recorded only when revenues are due. Other adjustments also reflect the inclusion of policies written in the year which are classified as investment contracts without discretionary participation features under IFRS 4, which are recorded as deposits and therefore not in gross premiums earned, and the exclusion of general insurance earned on an IFRS basis.

II(viii) Gross premiums earned including joint ventures and associates

	2022 \$m	2021 \$m
IFRS gross premiums earned	23,344	24,217
Gross premiums earned from joint ventures and associates	4,439	4,579
Total Group	27,783	28,796

Note

Calculated in accordance with the Group's IFRS accounting policies, which includes the full premium for insurance contracts classified under IFRS 4.

II(ix) Reconciliation between IFRS and EEV shareholders' equity

The table below shows the reconciliation of EEV shareholders' equity and IFRS shareholders' equity at the end of the year:

	31 Dec 2022 \$m	31 Dec 2021 \$m
IFRS shareholders' equity	16,960	17,088
Less: DAC assigned zero value for EEV purposes	(3,254)	(2,815)
Add: Value of in-force business of long-term business ^{note (a)}	27,266	35,456
Other ^{note (b)}	1,212	(2,374)
EEV shareholders' equity	42,184	47,355

Notes

- (a) EEV shareholders' equity comprises the present value of the shareholders' interest in the value of in-force business, total net worth of long-term business operations and IFRS shareholders' equity of asset management and other operations. The value of in-force business reflects the present value of expected future shareholder cash flows from long-term in-force business which are not captured as shareholders' interest on an IFRS basis. Total net worth represents the regulatory basis net assets for EEV reporting purposes, with adjustments as appropriate.
- (b) Other adjustments represent asset and liability valuation differences between IFRS and the local regulatory reporting basis used to value total net worth for long-term insurance operations. These also include the mark-to-market value movements of the Group's core structural borrowings which are fair valued under EEV but are held at amortised cost under IFRS.

II(x) Calculation of return on embedded value

Operating return on embedded value is calculated as the EEV operating profit for the year as a percentage of average EEV basis shareholders' equity.

	2022	2021
EEV operating profit for the year	3,952	3,543
Operating profit attributable to non-controlling interests	(29)	(28)
EEV operating profit, net of non-controlling interest (\$ million)	3,923	3,515
Shareholders' equity at 1 Jan*	47,584	41,926
Shareholders' equity at 31 Dec	42,184	47,355
Average shareholders' equity (\$ million)	44,884	44,641
Operating return on average shareholders' equity (%)	9%	8%

* Opening shareholders' equity at 1 January 2022 has been adjusted for the early adoption of the HK RBC regime. Further details can be found in the Basis of Preparation in the EEV basis results.

New business profit over embedded value is calculated as the EEV new business profit for the year as a percentage of average EEV basis shareholders' equity for long-term insurance business operations, excluding goodwill attributable to equity holders.

	2022	2021
New business profit (\$ million)*	2,184	2,526
Average EEV basis shareholders' equity for long-term insurance business operations, excluding goodwill attributable to equity holders (\$ million)	41,866	43,754
New business profit on embedded value (%)	5%	6%

* New business profit is attributed to the shareholders of the Group before deducting the amount attributable to non-controlling interests.

Average embedded value has been based on opening and closing EEV basis shareholders' equity for long-term business operations, excluding goodwill attributable to equity holders, as follows:

	2022 \$m	2021 \$m
Shareholders' equity at 1 Jan*	44,875	42,861
Shareholders' equity at 31 Dec	38,857	44,646
Average shareholders' equity	41,866	43,754

* Opening shareholders' equity at 1 January 2022 has been adjusted for the early adoption of the HK RBC regime. Further details can be found in the Basis of Preparation in the EEV basis results.

Risk Factors

A number of risk factors may affect the financial condition, results of operations and/or prospects of Prudential and its wholly and jointly owned businesses, as a whole, and, accordingly, the trading price of Prudential's shares. The risk factors mentioned below should not be regarded as a complete, exhaustive and comprehensive statement of all potential risks and uncertainties. The information given is as of the date of this document, and any forward-looking statements are made subject to the factors specified under 'Forward-looking statements'.

Prudential's approaches to managing risks are explained in the 'Risk Review' section of this document.

1. RISKS RELATING TO PRUDENTIAL'S FINANCIAL SITUATION

1.1 Prudential's businesses are inherently subject to market fluctuations and general economic conditions, each of which may adversely affect the Group's business, financial condition, results of operations and prospects.

Uncertainty, fluctuations or negative trends in global and national macroeconomic conditions and investment climates could have a material adverse effect on Prudential's business and profitability. Prudential operates in a macroeconomic and global financial market environment that has materially changed in recent periods. This presents significant uncertainties and potential challenges. For example, the rise in energy and commodity prices, exacerbated by the Russia-Ukraine conflict and global supply chain stresses, has contributed to the current inflationary environment. This has resulted in central banks, led by the US, rapidly tightening financial conditions with potential for further increases in interest rates in major global economies and the markets in which the Group operates, adversely impacting the valuation of fixed income assets and future profits due to the use of higher discount rates. In addition, the rising rates for developed economies have also led to weakened exchange rates of a number of emerging economies in which the Group operates, adversely impacting Prudential's consolidated financial statements upon the translation of results into US dollar, the Group's reporting currency. Other market uncertainties also include the impact of factors such as the nature and extent of central banks and governments actions in response to the inflationary environment, and the rapid relaxation of the Chinese Mainland's zero tolerance Covid-19 policy as well as border reopening. These uncertainties may apply for a prolonged period of time. The transition to a lower carbon economy, the timing and speed of which is uncertain and will vary by country, may also result in greater uncertainty, fluctuations or negative trends in asset valuations and reduced liquidity, particularly for carbon intensive sectors, and will have a bearing on inflation levels.

The uncertain macroeconomic and financial market environment may have a number of adverse impacts on the business, financial condition and results of the Group, including increased strategic, business, insurance, product and customer conduct risks. In general, upheavals in the financial markets may affect general levels of economic activity, employment and customer behaviour. As a result, insurers may experience an elevated incidence of claims, frauds, lapses, or surrenders of policies, and some policyholders may choose to defer or stop paying insurance premiums or reduce deposits into retirement plans. Uncertainty over livelihoods, elevated cost of living and challenges in affordability may adversely impact the demand for insurance products, and increase regulatory risk in meeting regulatory definitions and expectations with respect to vulnerable customers (see risk factor 3.8). In addition, there may be a higher incidence of counterparty failures. If sustained, this environment is likely to have a negative impact on the insurance sector over time and may consequently have a negative impact on Prudential's business, balance sheet and profitability. For example, this could occur if the recoverable value of intangible assets for bancassurance agreements and deferred acquisition costs are reduced. New challenges related to market fluctuations and general economic conditions may continue to emerge. For example, sustained inflationary pressures driving interest rates to even higher levels may lead to increased lapses for some guaranteed savings products where higher levels of guarantees are offered by products of the Group's competitors, reflecting consumer demand for returns at the level of, or exceeding, inflation. High inflation, combined with an economic downturn or recession, may also result in affordability challenges, adversely impacting the ability of consumers to purchase insurance products. Rising inflation, via medical claims inflation (with rising medical import prices a factor under current market conditions), may adversely impact the profitability of the Group's businesses.

Global financial markets are subject to uncertainty and volatility created by a variety of factors. These factors include actual or expected changes in monetary policy in the Chinese Mainland, the US and other jurisdictions together with their impact on base interest rates and the valuation of all asset classes and inflation expectations; slowdowns or reversals in world or regional economic growth (particularly where this is abrupt, as has been the case with the impact of the Russia-Ukraine conflict and geopolitical tensions); sector-specific slowdowns or deteriorations which have the potential to have contagion impacts (such as the negative developments in the Chinese Mainland property sector); fluctuations in global energy prices; and concerns over sovereign debt. Other factors include fluctuations in global commodity prices, concerns on the serviceability of sovereign debt in certain economies (particularly as central banks continue to raise rates in response to high inflation and the high indebtedness across sub-Saharan Africa countries), the increased level of geopolitical and political risk and policy-related uncertainty (including those resulting from the Russia-Ukraine conflict and the uncertainty and potential impact on business sentiment and the broader market resulting from the relaxation of pandemic-related restrictions, and border reopening, as well as regulatory tightening across sectors in the Chinese Mainland) and socio-political, climate-driven and pandemic events. The extent of the financial market and economic impact of these factors may be highly uncertain and unpredictable and influenced by the actions, including the duration and effectiveness of mitigating measures of governments, policymakers and the public.

The adverse effects of such factors could be felt principally through the following items:

- Changes to interest rates could reduce Prudential's capital strength and impair its ability to write significant volumes of new business. Increases in interest rates could adversely impact the financial condition of the Group through changes in the present value of future fees for unit-linked based businesses and/or the present value of future profits for accident and health products; and/or reduce the value of its assets and/or have a negative impact on its assets under management and profit. Decreases in interest rates could increase the potential adverse impact of product guarantees included in non-unit-linked products with a savings component; reduce investment returns arising on the Group's portfolios; impact the valuation of debt securities; and/or increase reinvestment risk for some of the Group's investments from accelerated prepayments and increased redemptions.
- A reduction in the financial strength and flexibility of corporate entities, as experienced by a number of issuers within the Chinese Mainland property sector, which may deteriorate the credit rating profile and valuation of the Group's invested credit portfolio (and which may result in an increase in regulatory capital requirements for the Group or its businesses), increased credit defaults and debt restructurings and wider credit and liquidity spreads resulting in realised and unrealised credit losses. Regulations imposing or increasing restrictions on the amount of company debt financing, such as those placing limits on debt or liability ratios, may also reduce the financial flexibility of corporate entities. Similarly, securitised assets in the Group's investment portfolio are subject to default risk and may be adversely impacted by delays or failures of borrowers to make payments of principal and interest when due. Where a widespread deterioration in the financial strength of corporate entities occurs, any assumptions on the ability and willingness of governments to provide financial support may need to be revised.
- Failure of, or legal, regulatory or reputational restrictions on the Group's ability to deal with, counterparties who have transactions with Prudential (such as banks, reinsurers and counterparties to cash management and risk transfer or hedging transactions) to meet commitments could give rise to a negative impact on Prudential's financial position and on the accessibility or recoverability of amounts due or the adequacy of collateral. Geographic or sector concentrations of counterparty credit risk could exacerbate the impact of these events where they materialise.
- Estimates of the value of financial instruments becoming more difficult because in certain illiquid, volatile or closed markets, determining the value at which financial instruments can be realised is highly subjective. Processes to ascertain such values require substantial elements of judgement, assumptions and estimates (which may change over time). Where the Group is required to sell its investments within a defined timeframe, such market conditions may result in the sale of these investments at below expected or recorded prices.
- Illiquidity of the Group's investments. The Group holds certain investments that may, by their nature, lack liquidity or have the potential to lose liquidity rapidly, such as investment funds (including money market funds), privately placed fixed maturity securities, mortgage loans, complex structured securities and alternative investments. If these investments were required to be liquidated on short notice, the Group may experience difficulty in doing so and may be forced to sell them at a lower price than it otherwise would have been able to realise.
- A reduction in revenue from the Group's products where fee income is linked to account values or the market value of the funds under management. Sustained inflationary pressures which may drive higher interest rates may also impact the valuation of fixed income investments and reduce fee income.
- Increased illiquidity, which includes the risk that expected cash inflows from investments and operations will not be adequate to meet the Group's anticipated short-term and long-term policyholder benefits and expense payment obligations. Increased illiquidity also adds to the uncertainty over the accessibility of financial resources which in extreme conditions could impact the functioning of markets and reduce capital resources as valuations decline. This could occur where external capital is unavailable at sustainable cost, increased liquid assets are required to be held as collateral under derivative transactions or redemption restrictions are placed on Prudential's investments in illiquid funds. In addition, significant redemption requests could also be made on Prudential's issued funds and while this may not have a direct impact on the Group's liquidity, it could result in reputational damage to Prudential. The potential impact of increased illiquidity is more uncertain than for other risks such as interest rate or credit risk.

For some non-unit-linked products with a savings component it may not be possible to hold assets which will provide cash flows to match those relating to policyholder liabilities. This may particularly be the case in those markets where bond markets are less developed or where the duration of policyholder liabilities is longer than the duration of bonds issued and available in the market, and in certain markets where regulated premium and claim values are set with reference to the interest rate environment prevailing at the time of policy issue. This results in a mismatch due to the duration and uncertainty of the liability cash flows and the lack of sufficient assets of a suitable duration. While this residual asset/liability mismatch risk can be managed, it cannot be eliminated. If interest rates in these markets are lower than those used to calculate premium and claim values over a sustained period, this could have a material adverse effect on Prudential's reported profit and the solvency of its business units. In addition, part of the profit from the Group's operations is related to bonuses for policyholders declared on with-profits products, which are impacted by the difference between actual investment returns of the with-profits fund (which are broadly based on historical and current rates of return on equity, real estate and fixed income securities) and minimum guarantee rates offered to policyholders. This profit could be lower in particular in a sustained low interest rate environment.

Any of the foregoing factors and events, individually or together, could have a material adverse effect on Prudential's business, financial condition, results of operations and prospects.

1.2 Geopolitical and political risks and uncertainty may adversely impact economic conditions, increase market volatility and regulatory compliance risks, cause operational disruption to the Group and impact the implementation of its strategic plans, which could have adverse effects on Prudential's business, financial condition, results of operations and prospects.

The Group is exposed to geopolitical and political risks and uncertainty in the diverse markets in which it operates. Such risks may include:

- The application of government regulations, executive powers, protectionist or restrictive economic and trade policies or measures adopted by businesses or industries which increase trade barriers or restrict trade, sales, financial transactions, or the transfer of capital, investment, data or other intellectual property, with respect to specific territories, markets, companies or individuals;
- An increase in the volume and pace of domestic regulatory changes, including those applying to specific sectors;
- The increased adoption or implementation of laws and regulations which may purport to have extra-territorial application;
- International trade disputes such as the implementation of trade tariffs;
- Withdrawals or expulsions from existing trading blocs or agreements or financial transaction systems, including those which facilitate cross-border payments;
- The domestic application of measures restricting national airspace with respect to aircraft of specific territories, markets, companies or individuals;
- Measures favouring local enterprises, such as changes to the maximum level of non-domestic ownership by foreign companies or differing treatment of foreign-owned businesses under regulations and tax rules; and
- Measures which require businesses of overseas companies to operate through locally incorporated entities or with requirements on minimum local representation on executive or management committees.

The above measures may have an adverse impact on Prudential through their effects on the macroeconomic outlook and the environment for global regional and national financial markets. They may also increase uncertainties and long-term complexity of legal and regulatory compliance, and result in heightened sanctions risk driven by geopolitical conflicts, as well as increase reputational risks, or may adversely impact Prudential where they apply to, and impact, the economic, business, legal and regulatory environment in specific markets or territories in which the Group, its joint ventures or jointly owned businesses, sales and distribution networks, or third-party service providers have operations. For internationally active groups such as Prudential, operating across multiple jurisdictions, such measures may also add to the complexity of legal and regulatory compliance and increase the risk of conflicts between the requirements of one jurisdiction and another. See risk factor 4.1 below.

Geopolitical and political risks and uncertainty may also adversely impact the Group's operations and its operational resilience. Increased geopolitical tensions may increase domestic and cross-border cyber intrusion activity and therefore increase cyber security risks. Geopolitical and political tensions may also lead to conflict, civil unrest and/or acts of civil disobedience. Such events could impact operational resilience by disrupting Prudential's systems, operations, new business sales and renewals, distribution channels and services to customers, which may result in a reduction in contributions from business units to the central cash balances and profit of the Group, decreased profitability, financial loss, adverse customer impacts and reputational damage and may impact Prudential's business, financial condition, results of operations and prospects.

Legislative or regulatory changes which adversely impact Hong Kong's economy or its international trading and economic relationships, in particular, may result in adverse sales, operational and product distribution impacts to the Group due to the territory being a key market which also hosts Group head office functions.

1.3 Covid-19 continues to have the potential to impact financial market volatility and global economic activity, increase operational disruption risks for businesses and adversely impact Prudential's sales in affected markets and its financial condition, results of operations and prospects.

Whilst most markets have moved to an endemic approach in managing Covid-19, the broader long-term macroeconomic impacts of Covid-19 continue to add uncertainty to the stability and outlook of equity markets, interest rates and credit spreads, and have the potential to affect market liquidity and reduce global economic activity. The potential adverse impacts to the Group of these effects are detailed in risk factor 1.1 above. Where measures to contain Covid-19 have been in effect, the level of sales activity in affected markets has been adversely impacted through a reduction in travel, and in agency and bancassurance activity. In particular, sales in the Group's Hong Kong business have been adversely impacted by the border restrictions in place with the Chinese Mainland. The recent easing of pandemic-related restrictions and the reopening of borders may help with recovery in sales levels in Hong Kong, however, uncertainty remains on the return of Chinese Mainland customers as well as the resumption of their demand for the Group's products in Hong Kong. The longer-term effects of Covid-19 have included, and may continue to include, latent morbidity impacts from the deferral of medical treatment by policyholders. It may be a factor in increasing morbidity claims and there may be implications from other factors such as long-term post-Covid-19 symptoms (although there is currently no consensus on the longer term impact on morbidity).

In response to previous pandemic-related restrictions, Prudential implemented changes to its sales and distribution processes in specific markets. These included virtual face-to-face sales of its products and the online recruitment, training and, where possible, licensing of agents. Such changes may increase or introduce operational and regulatory risks, in particular those focused on customer outcomes and conduct. A failure to apply ongoing appropriate governance and management of these risks may adversely impact Prudential's reputation and brand and the results of its operations. In markets where the level of sales under these processes is material or where such processes become permanent distribution channels, the commercial value of the Group's existing sale and distribution arrangements, such as bancassurance arrangements, may be adversely impacted.

1.4 As a holding company, Prudential is dependent upon its subsidiaries to cover operating expenses and dividend payments.

The Group's insurance and investment management operations are generally conducted through direct and indirect subsidiaries, which are subject to the risks discussed elsewhere in this 'Risk Factors' section.

As a holding company, Prudential's principal sources of funds are remittances from subsidiaries, shareholder-backed funds, the shareholder transfer from long-term funds and any amounts that may be raised through the issuance of equity, debt and commercial paper.

Certain of Prudential's subsidiaries are subject to insurance, asset management, foreign exchange and tax laws, rules and regulations (including in relation to distributable profits that can limit their ability to make remittances). In some circumstances, including where there are changes to general market conditions, this could limit Prudential's ability to pay dividends to shareholders or to make available funds held in certain subsidiaries to cover operating expenses of other members of the Group.

A material change in the financial condition of any of Prudential's subsidiaries may have a material effect on its business, financial condition, results of operations and prospects.

1.5 Prudential is subject to the risk of potential sovereign debt credit deterioration owing to the amounts of sovereign debt obligations held in its investment portfolio.

Investing in sovereign debt creates exposure to the direct or indirect consequences of geopolitical or political, social or economic changes (including changes in governments, heads of state or monarchs), military conflicts, pandemics and associated disruption, and other events affecting the markets in which the issuers of such debt are located and the creditworthiness of the sovereign. Investment in sovereign debt obligations involves risks not present in debt obligations of corporate issuers. In addition, the issuer of the debt or the governmental authorities that control the repayment of the debt may be unable or unwilling to repay principal or pay interest when due (or in their agreed currency) in accordance with the terms of such debt, and Prudential may have limited recourse to compel payment in the event of a default. A sovereign debtor's willingness or ability to repay principal and to pay interest in a timely manner may be affected by, among other factors, its cash flow situation, its relations with its central bank, the extent and availability of its foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the sovereign debtor's policy toward local and international lenders, geopolitical tensions and conflicts and the political constraints to which the sovereign debtor may be subject.

Moreover, governments may use a variety of techniques, such as intervention by their central banks or imposition of regulatory controls or taxes, to devalue their currencies' exchange rates, or may adopt monetary, fiscal and other policies (including to manage their debt burdens) that have a similar effect, all of which could adversely impact the value of an investment in sovereign debt even in the absence of a technical default. Periods of economic uncertainty may affect the volatility of market prices of sovereign debt to a greater extent than the volatility inherent in debt obligations of other types of issuers.

In addition, if a sovereign default or other such events described above were to occur, as has happened on certain occasions in the past, other financial institutions may also suffer losses or experience solvency or other concerns, which may result in Prudential facing additional risks relating to investments in such financial institutions that are held in the Group's investment portfolio. There is also risk that public perceptions about the stability and creditworthiness of financial institutions and the financial sector generally might be adversely affected as might counterparty relationships between financial institutions.

If a sovereign were to default on its obligations, or adopt policies that devalued or otherwise altered the currencies in which its obligations were denominated, this could have a material adverse effect on Prudential's business, financial condition, results of operations and prospects.

1.6 Downgrades in Prudential's financial strength and credit ratings could significantly impact its competitive position and damage its relationships with creditors or trading counterparties.

Prudential's financial strength and credit ratings, which are used by the market to measure its ability to meet policyholder obligations, are an important factor affecting public confidence in Prudential's products, and as a result its competitiveness. Downgrades in Prudential's ratings as a result of, for example, decreased profitability, increased costs, increased indebtedness or other concerns could have an adverse effect on its ability to market products and retain current policyholders, as well as the Group's ability to compete for acquisition and strategic opportunities. Downgrades may also impact the Group's financial flexibility, including its ability to issue commercial paper at acceptable levels and pricing. The interest rates at which Prudential is able to borrow funds are affected by its credit ratings, which are in place to measure the Group's ability to meet its contractual obligations.

In addition, changes in methodologies and criteria used by rating agencies could result in downgrades that do not reflect changes in the general economic conditions or Prudential's financial condition.

In addition, any such downgrades could have a material adverse effect on Prudential's business, financial condition, results of operations and prospects. Prudential cannot predict what actions rating agencies may take, or what actions Prudential may take in response to any such actions, which could adversely affect its business.

Any such downgrade of the Group could have an adverse effect on Prudential's financial flexibility, requirements to post collateral under or in connection with transactions and ability to manage market risk exposures. In addition, the interest rates or other costs that the Group incurs in respect of its financing activities may increase as a result. A credit rating downgrade may also affect public confidence in the Group's products and may adversely impact on its ability to market products, retain current policyholders or attract new policyholders.

1.7 Prudential is subject to the risk of exchange rate fluctuations owing to the geographical diversity of its businesses.

Due to the geographical diversity of Prudential's businesses, Prudential is subject to the risk of exchange rate fluctuations. Prudential's operations generally write policies and invest in assets denominated in local currencies. Although this practice limits the effect of exchange rate fluctuations on local operating results, it can lead to fluctuations in Prudential's consolidated financial statements upon the translation of results into the Group's presentation currency. This exposure is not currently separately managed. The Group presents its consolidated financial statements in US dollars. The results of some entities within the Group are not denominated in or linked to the US dollar and some enter into transactions which are conducted in non-US dollar currencies. Prudential is subject to the risk of exchange rate fluctuations from the translation of the results of these entities and non-US dollar transactions and the risks from the maintenance of the HK dollar peg to the US dollar. In cases where a non-US dollar denominated surplus arises in an operation which is to be used to support Group capital or shareholders' interest (ie remittances), this currency exposure may be hedged where considered economically favourable. Prudential is also subject to the residual risks arising from currency swaps and other derivatives that are used to manage the currency exposure.

2. RISKS RELATING TO SUSTAINABILITY AND ENVIRONMENTAL, SOCIAL AND GOVERNANCE ('ESG') MATTERS

2.1 The failure to understand and respond effectively to the risks associated with ESG factors could adversely affect Prudential's achievement of its long-term strategy.

A failure to manage the material risks associated with key ESG themes detailed below may undermine the Group from meeting its ESG commitments and the sustainability of Prudential by adversely impacting the Group's reputation and brand, and its ability to attract and retain customers and employees, and therefore the results of its operations and delivery of its strategy and long-term financial success.

(a) Environmental risks

Environmental concerns, notably those associated with climate change and their social and economic impacts, present long-term risks to the sustainability of Prudential and may impact its customers and other stakeholders.

Prudential's investment horizons are long-term, and it is therefore exposed to the potential long-term impact of climate change risks, which include the financial and non-financial impact of the transition to a lower carbon economy, physical, reputational and shareholder, customer or third-party litigation risks. The global transition to a lower carbon economy may have an adverse impact on investment valuations and liquidity as the financial assets of carbon intensive companies re-price, and this could result in some asset sectors facing significantly higher costs and a reduction in demand for their products and services. The speed of this transition, and the extent to which it is orderly and managed, will be influenced by factors such as changes in public policy, technology and market or investor sentiment. The potential impact of these factors on the valuation of investments may also have a broader economic impact that may adversely affect customers and their demand for the Group's products. Direct physical and other risks from climate change and the transition to a lower carbon economy have the potential to disproportionately impact the Asia and Africa markets in which Prudential operates and invests, and the Group's stakeholders increasingly expect and/or rely on the Group to support an orderly, inclusive and sustainable transition based on an understanding of relevant market and company-level transition plans taking into consideration the impact on the economies, businesses, communities and customers in these markets.

The Group's ability to sufficiently understand and appropriately respond to transition risk and its ability to deliver on its external carbon reduction commitments and the implementation of ESG considerations in existing or new ESG-orientated products may be limited by insufficient or unreliable data on carbon exposure and transition plans for the investee company assets in which it invests. The direct physical impacts of climate change, driven by both specific short-term climate-related events such as natural disasters and longer-term changes to climate and the natural environment, are likely to become increasingly significant factors in the mortality and morbidity risk assessments for the Group's insurance product underwriting and offerings and their associated claims profiles. Such short-term and long-term changes in markets where Prudential or its key third parties operate could adversely impact the Group's operational resilience and its customers, which may potentially occur through migration or displacement both within and across borders.

The pace and volume of global standards and climate-related regulations emerging across the markets in which the Group operates, the need to deliver on existing and new exclusions or restrictions on investments in certain sectors, engagement and reporting commitments and the demand for externally assured reporting may give rise to compliance, operational and disclosure and litigation risks which may be increased by the multi-jurisdictional coordination required in adopting a consistent risk management approach. The launch of ESG-orientated products, or the (method of) incorporation of ESG considerations in the investment process for existing products, may increase the risks related to the perceived fulfilment of fiduciary duties to customers by the Group's asset managers and may increase regulatory compliance, customer conduct, product disclosure and customer litigation risks. Prudential's voluntary memberships of, or participation within, industry organisations and groups or their initiatives may increase stakeholder expectations of the Group's acquiescence or compliance with their publicised positions or aims and therefore may increase the reputational risk of the Group where their positions or aims evolve. See risk factor 4.1 for details of ESG and sustainability-related regulatory and supervisory developments with potential impacts the Group.

A failure to understand, manage and provide greater transparency of its exposure to these climate-related risks may have increasingly adverse implications for Prudential and its stakeholders.

(b) Social risks

Social risks that could impact Prudential may arise from a failure to consider the rights, diversity, well-being, changing needs, human rights and interests of its customers and employees and the communities in which the Group or its third parties operate. Perceived inequity and income disparities (both with developed markets and within the Group's markets), intensified by the pandemic, have the potential to further erode social cohesion across the Group's markets which may increase operational and disruption risks for Prudential. Direct physical impacts of climate change and deterioration of the natural environment and the global transition to a lower carbon economy may disproportionately impact the stability of livelihoods and health of lower socioeconomic groups within the markets in which the Group operates. These risks are heightened as Prudential operates in multiple jurisdictions and vulnerable to climate change, with distinct local cultures and considerations.

Evolving social norms and emerging population risks associated with public health trends (such as an increase in obesity and mental health deterioration) and demographic changes (such as population urbanisation and ageing) may affect customer lifestyles and therefore may impact the level of claims under the Group's insurance product offerings. As a provider of insurance and investment services, the Group is increasingly focused on making its products more accessible through digital innovation, technologies and distribution methods for a broadening range of products and services. As a result, Prudential has access to extensive amounts of customer personal data, including data related to personal health, and an increasing ability to analyse and interpret this data through the use of complex tools, machine learning and artificial intelligence technologies. The Group is therefore exposed to the regulatory, ethical and reputational risks associated with customer data misuse or security breaches. These risks are explained in risk factor 3.5. The increasing digitalisation of products, services and processes may also result in new and unforeseen regulatory requirements and stakeholder expectations, including those relating to how the Group supports its customers through this transformation.

The Group believes in supporting human rights and acting responsibly and with integrity in everything the Group does, and is committed to fostering an inclusive, diverse and open environment for its employees in accordance with the principles of the Universal Declaration of Human Rights and of the International Labour Organisation's core labour standards. The potential for reputational risk extends to the Group's supply chains and its investee companies, which may be exposed to factors such as poor labour standards and abuses of human rights by third parties. The Group is committed to zero tolerance of slavery, human trafficking, child labour and any other form of human rights abuse within the Group or in its supply chains globally.

(c) Governance

A failure to maintain high standards of corporate governance may adversely impact the Group and its customers and employees and increase the risk of poor decision-making and a lack of oversight and management of its key risks. Poor governance may arise where key governance committees have insufficient independence, a lack of diversity, skills or experience in their members, or unclear (or insufficient) oversight responsibilities and mandates. Inadequate oversight over remuneration also increases the risk of poor senior management behaviours.

Prudential operates across multiple jurisdictions and has a group and subsidiary governance structure which may add further complexity to these considerations. Participation in joint ventures or partnerships where Prudential does not have direct overall control, and the use of third-party service providers, increase the potential for reputational risks arising from inadequate governance.

Sustainability and ESG-related risks may directly or indirectly impact Prudential's business and the achievement of its strategic focus on providing greater and more inclusive access to good health and financial security, responsible stewardship in managing the human impact of climate change and building human and social capital with its broad range of stakeholders, which range from customers, institutional investors, employees and suppliers, to policymakers, regulators, industry organisations and local communities. A failure to transparently and consistently implement the Group's ESG strategy across operational, underwriting and investment activities, as well as a failure to implement and uphold responsible business practices, may adversely impact the financial condition and reputation of the Group. This may also negatively impact the Group's stakeholders, who all have expectations, concerns and aims related to ESG and sustainability matters, which may differ, both within and across the markets in which the Group operates. In its investment activities, Prudential's stakeholders increasingly have expectations of, and place reliance on, an approach to responsible investment that demonstrates how ESG and sustainability considerations are effectively integrated into investment decisions, responsible supply chain management and the performance of fiduciary and stewardship duties. These duties include effective implementation of exclusions, voting and active engagement decisions with respect to investee companies, as both an asset owner and an asset manager, in line with internally defined procedures and external commitments. The increased demands and expectations of stakeholders for transparency and disclosure of the activities that support these duties further heightens disclosure risks for the Group, including those associated with potentially overstating or mis-stating the positive environmental or societal impacts of the Group's activities, products and services (eg greenwashing).

3. RISKS RELATING TO PRUDENTIAL'S BUSINESS ACTIVITIES AND INDUSTRY

3.1 The implementation of large-scale transformation, including complex strategic initiatives, gives rise to significant design and execution risks and may affect Prudential's operational capability and capacity. Failure of these initiatives to meet their objectives may adversely impact the Group and the delivery of its strategy.

Where required in order to implement its business strategies for growth, meet customer needs, improve customer experiences, strengthen operational resilience, meet regulatory and industry requirements and maintain market competitiveness, Prudential from time to time undertakes corporate restructuring, transformation programmes and acquisitions and disposals across its business. Many of these change initiatives are complex, inter-connected and/or of large scale, and include improvement of business efficiencies through operating model changes, advancing the Group's digital capability, expanding strategic partnerships and industry and regulatory-driven change. There may be a material adverse effect on Prudential's business, employees, customers, financial condition, results of operations and prospects if these initiatives incur unplanned costs, are subject to implementation delays, or fail to fully meet their objectives. There may also be adverse implications for the Group in undertaking transformation initiatives such as placing additional strain on employees, operational capacity, and weakening the control environment. Implementing initiatives related to significant accounting standard changes, such as IFRS 17, and other regulatory changes in major businesses of the Group, such as those related to the sale and management of investment-linked products at the Indonesia businesses, may amplify these risks. Leadership changes and changes to the business and operational model of the Group increase uncertainty for its employees, which may affect operational capacity and the ability of the Group to deliver its strategy. Risks relating to these regulatory changes are explained in risk factor 4.1 below.

The speed of technological change in the business could outpace the Group's ability to anticipate all the unintended consequences that may arise from such change. Innovative technologies, such as artificial intelligence, expose Prudential to potential additional regulatory, information security, operational, ethical and conduct risks which, if inadequately managed, could result in customer detriment and reputational damage.

3.2 Prudential's businesses are conducted in highly competitive environments with rapidly developing demographic trends. The profitability of the Group's businesses depends on management's ability to respond to these pressures and trends.

The markets for financial services are highly competitive, with a number of factors affecting Prudential's ability to sell its products and profitability, including price and yields offered, financial strength and ratings, range of product lines and product quality, ability to implement and comply with regulatory changes, the imposition of regulatory sanctions, brand strength and name recognition, investment management performance and fund management trends, historical bonus levels, the ability to respond to developing demographic trends, customer appetite for certain savings products (which may be impacted by broader economic pressures) and technological advances. In some of its markets, Prudential faces competitors that are larger, have greater financial resources or a greater market share, offer a broader range of products or have higher bonus rates. Further, heightened competition for talented and skilled employees, agents and independent financial advisers may limit Prudential's potential to grow its business as quickly as planned or otherwise implement its strategy. Technological advances, including those enabling increased capability for gathering large volumes of customer health data and developments in capabilities and tools in analysing and interpreting such data (such as artificial intelligence and machine learning), may result in increased competition to the Group, both from within and outside the insurance industry, and may increase the competition risks resulting from a failure to be able to attract or retain talent.

The Group's principal competitors include global life insurers, regional insurers and multinational asset managers. In most markets, there are also local companies that have a material market presence.

Prudential believes that competition will intensify across all regions in response to consumer demand, digital and other technological advances (including the emergence and maturing of new distribution channels), the need for economies of scale and the consequential impact of consolidation, regulatory actions and other factors. Prudential's ability to generate an appropriate return depends significantly upon its capacity to anticipate and respond appropriately to these competitive pressures. This includes managing the potential adverse impacts to the commercial value of the Group's existing sale and distribution arrangements, such as bancassurance arrangements, in markets where new distribution channels develop.

Failure to do so may adversely impact Prudential's ability to attract and retain customers and, importantly, may limit Prudential's ability to take advantage of new business arising in the markets in which it operates, which may have an adverse impact on the Group's business, financial condition, results of operations and growth prospects.

3.3 Adverse experience in the operational risks inherent in Prudential's business, and those of its material outsourcing partners, could disrupt its business functions and have a negative impact on its business, financial condition, results of operations and prospects.

Operational risks are present in all of Prudential's businesses, including the risk of loss arising from inadequate or failed internal processes, systems or human error, fraud, the effects of natural or man-made catastrophic events (such as natural disasters, pandemics, cyber-attacks, acts of terrorism, civil unrest and other catastrophes) or other external events. These risks may also adversely impact Prudential through its partners. Prudential relies on the performance and operations of a number of bancassurance, product distribution, outsourcing (including but not limited to external technology, data hosting and payments) and service partners. These include back office support functions, such as those relating to technology infrastructure, development and support and customer facing operations and services, such as product distribution and services (including through digital channels) and investment operations. This creates reliance upon the resilient operational performance of these partners and exposes Prudential to the risk that the operations and services provided by these partners are disrupted or fail. Further, Prudential operates in extensive and evolving legal and regulatory environments which adds to the complexity of the governance and operation of its business processes and controls.

Exposure to such risks could impact Prudential's operational resilience and ability to perform necessary business functions when there are disruptions to its systems, operations, new business sales and renewals, distribution channels and services to customers, or result in the loss of confidential or proprietary data. Such risks, as well as any weaknesses in administration systems (such as those relating to policyholder records) or actuarial reserving processes, may also result in increased expenses, as well as legal and regulatory sanctions, decreased profitability, financial loss and customer conduct risk impacts. This could damage Prudential's reputation and relationship with its customers and business partners. A failure to adequately oversee service partners (or their technology and operational systems and processes) could result in significant service degradation or disruption to Prudential's business operations and services to its customers, which may have reputational or conduct risk implications and could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Prudential's business requires the processing of a large number of transactions for a diverse range of products. It also employs complex and inter-connected technology and finance systems, models, and user developed applications in its processes to perform a range of operational functions. These functions include the calculation of regulatory or internal capital requirements, the valuation of assets and liabilities and the acquisition of new business using artificial intelligence and digital applications. Many of these tools form an integral part of the information and decision-making frameworks used by Prudential and the risk of adverse consequences arising from erroneous or misinterpreted tools used in core business activities, decision-making and reporting exists. Errors or limitations in these tools, or their inappropriate usage, may lead to regulatory breaches, inappropriate decision-making, financial loss, customer detriment, inaccurate external reporting or reputational damage. The long-term nature of much of the Group's business also means that accurate records are to be maintained securely for significant time periods.

The performance of the Group's core business activities and the uninterrupted availability of services to customers rely significantly on, and require significant investment in, resilient IT applications, infrastructure and security architectural design, data governance and management and other operational systems, personnel, controls and processes. During large-scale disruptive events or times of significant change, or due to other factors impacting operational performance including adequacy of skilled/experienced personnel, the resilience and operational effectiveness of these systems and processes at Prudential and/or its third-party service providers may be adversely impacted. In particular, Prudential and its business partners are making increasing use of emerging technological tools and digital services, or forming strategic partnerships with third parties to provide these capabilities. Automated distribution channels and services to customers increase the criticality of providing uninterrupted services. A failure to implement appropriate governance and management of the incremental operational risks from emerging technologies may adversely impact Prudential's reputation and brand, the results of its operations, its ability to attract and retain customers and its ability to deliver on its long-term strategy and therefore its competitiveness and long-term financial success.

Although Prudential's technology, compliance and other operational systems, models and processes incorporate governance and controls designed to manage and mitigate the operational and model risks associated with its activities, there can be no complete assurance as to the resilience of these systems and processes to disruption or that governance and controls will always be effective. Due to human error, among other reasons, operational and model risk incidents do occur from time to time and no system or process can entirely prevent them. Prudential's legacy and other technology systems, data and processes, as with operational systems and processes generally, may also be susceptible to failure or security/data breaches.

3.4 Attempts to access or disrupt Prudential's technology systems, and loss or misuse of personal data, could result in loss of trust from Prudential's customers and employees and reputational damage, which could have material adverse effects on the Group's business, financial condition, results of operations and prospects.

Prudential and its business partners are increasingly exposed to the risk that individuals (which includes connected persons such as employees, contractors or representatives of Prudential or its third-party service providers, and unconnected persons) or groups may intentionally or unintentionally disrupt the availability, confidentiality and integrity of its technology systems or compromise the integrity and security of data (both corporate and customer), including disruption from ransomware (malicious software designed to restrict Prudential's access to data until the payment of a sum of money and to exfiltrate data with a threat to publicly expose Prudential data if a ransom payment is not paid), and untargeted but sophisticated and automated attacks. Where these risks materialise, this could result in disruption to key operations, make it difficult to recover critical data or services or damage assets, any of which could result in loss of trust from Prudential's customers and employees, reputational damage and direct or indirect financial loss. The Russia-Ukraine conflict has coincided with a significant increase in reported cyber threats and attacks during 2022. Cyber-security threats continue to evolve globally in sophistication and potential significance. Prudential's increasing profile in its current markets and those in which it is entering, growing customer interest in interacting with their insurance providers and asset managers through the internet and social media, improved brand awareness, and increasing adoption of the Group's digital platforms could also increase the likelihood of Prudential being considered a target by cyber criminals. Ransomware campaigns have increased in frequency and represent an increasing threat to the financial services sector, with recent highly publicised attacks on financial services companies.

There is an increasing requirement and expectation on Prudential and its business partners not only to hold the data of customers, shareholders and employees securely, but also to ensure its ongoing accuracy and that it is being used in a transparent, appropriate and ethical way, including in decision-making where automated processes are employed. As Prudential and its business partners increasingly adopt digital technology in business operations, the data the Group generates creates an opportunity to enhance customer engagement while maintaining a responsibility to keep customers' personal data safe. Prudential adheres to data minimisation and 'privacy-by-design' principles, ensuring that the Group only collects and uses data for its intended purpose and does not retain it longer than necessary, and that privacy elements are present both at the onset and throughout the Group's entire data processes. The handling of customer's data is governed by specific policies and frameworks, such as the Group Information Security Policy, the Group Privacy Policy and the Group Data Policy. A failure to adhere to these policies may result in regulatory scrutiny and sanctions and detriment to customers and third-party partners, and may adversely impact the reputation and brand of the Group, its ability to attract and retain customers and deliver on its long-term strategy and therefore the results of its operations.

The risk to the Group of not meeting these requirements and expectations may be increased by the development of cloud-based infrastructure and the usage of digital distribution and service channels, which can collect a broader range of personal and health-related data from individuals at increased scale and speed, and the use of complex tools, machine learning and artificial intelligence technologies to process, analyse and interpret this data. New and currently unforeseeable regulatory issues may also arise from the increased use of emerging technology. Regulatory developments in cybersecurity and data protection continue to progress worldwide. Across the Group's markets these include the ongoing development of a holistic data governance regime in the Chinese Mainland, including the Data Security Law and Personal Information Protection Law, and the revised Measures for Cybersecurity Review. In Thailand, the Personal Data Protection Act regulations came into effect in June 2022. Such developments may increase the complexity of requirements and obligations in this area, in particular where they include national security restrictions or impose differing and/or conflicting requirements compared with those of other jurisdictions. These risks may also increase the financial and reputational implications for Prudential of regulatory non-compliance or a significant breach of IT systems or data, including at its joint ventures or third-party service providers. The international transfer of data may, as a global organisation, increase regulatory risks for the Group.

The Group has not, to date, experienced or been affected by any cyber and data breaches which have had a material impact on its operations. However, Prudential has been, and likely will continue to be, subject to potential damage from computer viruses, unauthorised access and cyber-security attacks such as 'denial of service' attacks, phishing and disruptive software campaigns. Despite the multi-layers security defences in place, there can be no assurance that such events will not take place which may have material adverse consequential effects on Prudential's business, financial condition, results of operations and prospects.

3.5 Prudential's digital platforms may heighten existing business risks to the Group or introduce new risks as the markets in which it operates, and its partnerships and product offerings evolve.

Prudential's digital platforms, including Pulse, are subject to a number of risks discussed within this 'Risk Factors' section. In particular, these include risks related to legal and regulatory compliance and the conduct of business; the execution of complex change initiatives; information security and data privacy; the use of models (including those using artificial intelligence) and the handling of personal data; the resilience and integrity of IT infrastructure and operations; and those relating to the management of third parties. These existing risks for the Group may be increased due to a number of factors:

- The number of current and planned markets in which Pulse and other digital platforms operate, each with their own laws and regulations, regulatory and supervisory authorities, the scope of application of which may be uncertain or change at pace, may increase regulatory compliance risks;

- The implementation of planned digital platforms and services may require the delivery of complex, inter-connected change initiatives across current and planned markets. This may give rise to design and execution risks, which could be amplified where these change initiatives are delivered concurrently;
- The increased volume, breadth and sensitivity of data on which the business model of the platform is dependent and to which the Group has access, holds, analyses and processes through its models, which increases data security, privacy and usage risks. The use of complex models, including where they use artificial intelligence for critical decision-making, in the application's features and offerings may give rise to ethical, operational, conduct, litigation and reputational risks where they do not function as intended;
- The digital platform and its services may rely on and/or collaborate with a number of third-party partners and providers, which may vary according to the market. This may increase operational disruption risks to the uninterrupted provision of services to customers, regulatory compliance and conduct risks, and the potential for reputational risks; and
- Support for, and development of, the platform may be provided outside of the individual markets in which the platform operates, which may increase the complexity of local legal and regulatory compliance.

New product offerings and functionality may be developed and provided through the digital platforms, which may introduce new regulatory, operational, conduct and strategic risks for the Group. Regulations may be introduced, which limit the permitted scope of online or digitally distributed insurance and asset management services, and may restrict current or planned offerings provided by the platform.

A failure to implement appropriate governance and management of the incremental and new risks detailed above may adversely impact Prudential's reputation and brand, its ability to attract and retain customers, its competitiveness and its ability to deliver on its long-term strategy.

3.6 Prudential operates in certain markets with joint venture partners and other shareholders and third parties. These businesses face the same risks as the rest of the Group and also give rise to certain risks to Prudential that the Group does not face with respect to its wholly owned subsidiaries.

Prudential operates, and in certain markets is required by local regulation to operate, through joint ventures and other joint ownership or third-party arrangements (including associates). The financial condition, operations and reputation of the Group may be adversely impacted, or the Group may face regulatory censure, in the event that any of its partners fails or is unable to meet its obligations under the arrangements, encounters financial difficulty, or fails to comply with local or international regulation and standards such as those pertaining to the prevention of financial crime. Reputational risks to the Group are amplified where any joint ventures or jointly owned businesses carry the Prudential name.

A material proportion of the Group's business comes from its joint venture and associate businesses in the Chinese Mainland and India, respectively. For such operations the level of control exercisable by the Group depends on the terms of the contractual agreements, in particular, those terms providing for the allocation of control among, and continued cooperation between, the participants. As a result, the level of oversight, control and access to management information the Group is able to exercise at these operations may be lower compared to the Group's wholly owned businesses. This may increase the uncertainty for the Group over the financial condition of these operations, including the credit risk profile and valuation of their investment portfolios and the extent of their invested credit and counterparty credit risk exposure, resulting in heightened risks to the Group as a whole. This may particularly be the case where the geographies in which these operations are located experience market or sector-specific slowdowns, disruption, volatility or deterioration (such as the negative developments in the Chinese Mainland property sector). In addition, the level of control exercisable by the Group could be affected by changes in the maximum level of non-domestic ownership imposed on foreign companies in certain jurisdictions. The exposure of the Group to the risks detailed in risk factor 3.1 above may also increase should the Group's strategic initiatives include the expansion of the Group's operations through joint ventures or jointly owned businesses.

In addition, a significant proportion of the Group's product distribution is carried out through agency arrangements and contractual arrangements with third-party service providers not controlled by Prudential, such as bancassurance arrangements, and the Group is therefore dependent upon the continuation of these relationships. The effectiveness of these arrangements, or temporary or permanent disruption to them, such as through significant deterioration in the reputation, financial position or other circumstances of the third-party service providers, material failure in controls (such as those pertaining to the third-party service providers' systems failure or the prevention of financial crime), regulatory changes affecting the governance, operation, or failure to meet any regulatory requirements could adversely affect Prudential's reputation and its business, financial condition, results of operations and prospects.

3.7 Adverse experience relative to the assumptions used in pricing products and reporting business results could significantly affect Prudential's business, financial condition, results of operations and prospects.

In common with other life insurers, the profitability of the Group's businesses depends on a mix of factors including mortality and morbidity levels and trends, policy surrenders and take-up rates on guarantee features of products, investment performance and impairments, unit cost of administration and new business acquisition expenses. The Group's businesses are subject to inflation risk. In particular, the Group's medical insurance businesses are also exposed to medical inflation risk. The potential adverse impacts to the Group's persistency and morbidity experience resulting from Covid-19 related restrictions are described in risk factor 1.3 above. The potential adverse impacts to the profitability of the Group's businesses from the upheavals in financial markets and levels of economic activity on customer behaviours are described in risk factor 1.1 above. While the Group has the ability to re-price some of its products, the frequency of re-pricing may need to be increased. Such repricing is dependent on the availability of operational and resource capacity to do so, as well as the Group's ability to implement such re-pricing in light of the increased regulatory and societal expectations reflecting the affordability of insurance products and the protection of vulnerable customers, as well as the commercial considerations of the markets the Group operates in. The profitability of the Group's businesses also may be adversely impacted by medical reimbursement downgrade experience following any re-pricing.

Prudential, like other insurers, needs to make assumptions about a number of factors in determining the pricing of its products, for setting reserves, and for reporting its capital levels and the results of its long-term business operations. A further factor is the assumptions that Prudential makes about future expected levels of the rates of early termination of products by its customers (known as persistency). This is relevant to a number of lines of business in the Group. Prudential's persistency assumptions reflect a combination of recent past experience for each relevant line of business and expert judgement, especially where a lack of relevant and credible experience data exists. Any expected change in future persistency is also reflected in the assumptions. If actual levels of persistency are significantly different than assumed, the Group's results of operations could be adversely affected.

In addition, Prudential's business may be adversely affected by epidemics, pandemics and other effects that give rise to a large number of deaths or additional sickness claims, as well as increases to the cost of medical claims. Pandemics, significant influenza and other epidemics have occurred a number of times historically, but the likelihood, timing, or the severity of future events cannot be predicted. The effectiveness of external parties, including governmental and non-governmental organisations, in combating the spread and severity of any epidemics, as well as pharmaceutical treatments and vaccines (and their roll-outs) and non-pharmaceutical interventions, could have a material impact on the Group's claims experience. The risks to the Group resulting from Covid-19 are included in risk factor 1.3 above.

Prudential uses reinsurance to selectively transfer mortality, morbidity and other risks. This exposes the Group to the counterparty risk of a reinsurer being unable to pay reinsurance claims or otherwise meet their commitments; the risk that a reinsurer changes reinsurance terms and conditions of coverage, or increases the price of reinsurance which Prudential is unable to pass on to its customers; the risk of ambiguity in the reinsurance terms and conditions leading to uncertainty whether an event is covered under a reinsurance contract; and the risk of being unable to replace an existing reinsurer, or find a new reinsurer, for the risk transfer being sought.

Any of the foregoing, individually or together, could have a material adverse effect on Prudential's business, financial condition, results of operations and prospects.

4. RISKS RELATING TO LEGAL AND REGULATORY REQUIREMENTS

4.1 Prudential conducts its businesses subject to regulation and associated regulatory risks, including a change to the basis in the regulatory supervision of the Group, the effects of changes in the laws, regulations, policies and their interpretations and any accounting standards in the markets in which it operates.

Changes in government policy and legislation (including in relation to tax and data security), capital control measures on companies and individuals, regulation or regulatory interpretation applying to companies in the financial services and insurance industries in any of the markets in which Prudential operates (including those related to the conduct of business by Prudential or its third-party distributors), or decisions taken by regulators in connection with their supervision of members of the Group, which in some circumstances may be applied retrospectively, may adversely affect Prudential. The impact from any regulatory changes may be material to Prudential, for example changes may be required to its product range, distribution channels, handling and usage of data, competitiveness, profitability, capital requirements, risk management approaches, corporate or governance structure, financial and non-financial disclosures and reported results and financing requirements. Changes in regulations related to capital have the potential to change the extent of sensitivity of capital to market factors. Also, regulators in jurisdictions in which Prudential operates may impose requirements affecting the allocation of capital and liquidity between different business units in the Group, whether on a geographic, legal entity, product line or other basis. Regulators may also change solvency requirements, methodologies for determining components of the regulatory or statutory balance sheet including the reserves and the level of capital required to be held by individual businesses (with implications to the Group capital position), and the regulation and expectations of customers-facing processes including selling practices, and could introduce changes that impact products sold or that may be sold. Furthermore, as a result of interventions by governments in light of financial and global economic conditions, there may continue to be changes in government regulation and supervision of the financial services industry, including the possibility of higher capital requirements, restrictions on certain types of transactions and enhancement of supervisory powers.

In the markets in which it operates, Prudential is subject to regulatory requirements and obligations with respect to financial crime, including anti-money laundering, and sanctions compliance, which may either impose obligations on the Group to act in a certain manner or restrict the way that it can act in respect of specified individuals, organisations, businesses and/or governments. A failure to do so may adversely impact the reputation of Prudential and/or result in the imposition of legal or regulatory sanctions or restrictions on the Group. For internationally active groups such as Prudential, operating across multiple jurisdictions increases the complexity and volume of legal and regulatory compliance. Compliance with Prudential's legal or regulatory obligations, including those in respect of international sanctions, in one jurisdiction may conflict with the law or policy objectives of another jurisdiction, or may be seen as supporting the law or policy objectives of that jurisdiction over another, creating additional legal, regulatory compliance and reputational risks for the Group. Geopolitical developments, such as the Russia-Ukraine conflict and US-China tensions, may result in an increase in the volume and complexity of international sanctions. These risks may be increased where uncertainty exists on the scope of regulatory requirements and obligations, and where the complexity of specific cases applicable to the Group is high.

Further information on specific areas of regulatory and supervisory requirements and changes are included below.

(a) Group-wide Supervision ('GWS')

To align Hong Kong's regulatory regime with international standards and practices, the Hong Kong IA developed its GWS Framework for multinational insurance groups under its supervision based on a principle-based and outcome-focused approach, which allows the Hong Kong IA to exercise direct regulatory powers over the designated holding companies of multinational insurance groups. The GWS Framework became effective for Prudential upon designation by the Hong Kong IA on 14 May 2021. Whilst the regulatory requirements are in effect, given the early nature of the regime, there is a risk that the interpretations of the principle-based regulatory requirements made by the Group in complying with the regulatory requirements may differ in some aspects from the interpretations made by the Hong Kong IA in their supervision of these principle-based regulatory requirements or as a result of the potential for further regulatory guidance to be issued. Prudential constructively engages with the Hong Kong IA as its Group-wide supervisor to ensure ongoing sustainable compliance.

(b) Global regulatory requirements and systemic risk regulation

Currently there are also a number of ongoing global regulatory developments which could impact Prudential's businesses in the many jurisdictions in which they operate. These include the work of the Financial Stability Board ('FSB') in the area of systemic risk including assessing and mitigating systemic risk through the Holistic Framework ('HF') (replacing the Global Systemically Important Insurer 'G-SII' designations) and the Insurance Capital Standard ('ICS'), both being developed by the International Association of Insurance Supervisors ('IAIS'). In addition, regulators in a number of jurisdictions in which the Group operates are further developing their local capital regimes. There remains a high degree of uncertainty over the potential impact of such changes on the Group.

Efforts to curb systemic risk and promote financial stability are also under way. At the international level, the FSB continues to develop recommendations for the asset management and insurance sectors, including ongoing assessment of systemic risk measures. The IAIS has continued to focus on the following key developments.

In November 2019, the IAIS adopted the Common Framework ('ComFrame') which establishes supervisory standards and guidance focusing on the effective group-wide supervision of Internationally Active Insurance Groups ('IAIGs'). Prudential was included in the first register of IAIGs released by the IAIS on 1 July 2020 and was designated an IAIG by the Hong Kong IA following an assessment against the established criteria in ComFrame.

The IAIS has also been developing the ICS as part of ComFrame. The implementation of ICS will be conducted in two phases: a five-year monitoring phase followed by an implementation phase. The Aggregation Method is one of the alternatives being considered to the default approach undertaken for the ICS during the monitoring period and the related proposals are being led by the National Association of Insurance Commissioners ('NAIC'). In June 2022, the IAIS released a paper on comparable outcomes of the Aggregation Method for ICS. Feedback on this public consultation was received by 15 August 2022 and the IAIS expects to adopt the comparability criteria by March 2023.

In December 2020, the FSB endorsed a new HF, intended for the assessment and mitigation of systemic risk in the insurance sector, (implemented by the IAIS in 2020), and discontinued G-SII designations. Many of the previous G-SII measures have already been adopted into the Insurance Core Principles ('ICPs') and ComFrame, as well as under the Hong Kong IA's GWS Framework. As an IAIG, Prudential is subject to these measures. The HF also includes a monitoring element for the identification of a build-up of systemic risk and to enable supervisors to take action where appropriate. The FSB reserves the right to publicly express its views on whether an individual insurer is systemically important in the global context and the application of any necessary policy measures to address such systemic importance. The FSB will also continue to review the process of assessing and mitigating systemic risk based on the HF and may adjust the process, including bringing back G-SII designations if deemed necessary.

There continues to be material change in the regulatory guidance in this area, including several areas still in development as part of the IAIS' HF implementation and any new or changing regulations could have a further impact on Prudential. Recent developments include:

- At its Annual General Meeting in November 2022, the IAIS Executive Committee agreed to publish the liquidity metrics that have been under development to facilitate the monitoring of the global insurance sector's liquidity risk.

- A public consultation on the review of the individual insurer monitoring assessment methodology was launched in January 2023 to look at how to fine tune systemic risk indicators as part of the regular tri-annual review of the Global Monitoring Exercise.
- The IAIS Executive Committee also adopted an aggregate report on the outcomes of the intensive Targeted Jurisdictional Assessments of the implementation of the HF supervisory material. A public report is due to be released in the first half of 2023. A key conclusion is that significant progress has been made in implementing macroprudential supervisory requirements in recent years.

(c) Regional regulatory regime developments, including climate-related regulatory changes

In 2022, regulators in Asia continue to focus on the financial and operational resilience of the insurance industry as well as customer and policyholder protection. New regulations were continuously, and often concurrently, issued in a number of markets to (1) manage insurance and financial risks, including capital and solvency, and (2) implement effective customer protection, information security and data privacy and residency, third party and technology risk management controls with appropriate corporate governance.

In some of the Group's key markets, major regulatory changes and reforms are in progress, with some uncertainty on the full impact to Prudential:

- In the Chinese Mainland, regulatory developments across a number of industries including the financial sector, have continued at pace, potentially increasing compliance risk to the Group. Recent regulatory developments in the Chinese Mainland which include the following:
 - The China Banking and Insurance Regulatory Commission ('CBIRC') released the official regulation for its China Risk Oriented Solvency System ('C-ROSS II') Phase II, which became effective for Q1 2022 solvency reporting, subject to ongoing transitional arrangements;
 - The Cyberspace Administration of China ('CAC') issued the Measures on Security Assessment of Outbound Data Transfers in Q3 2022, which, although provide more information on cross-border data transfers, imposed new requirements including a mandatory security assessment on outbound data transfers. Businesses that collect and process the personal information of the Chinese Mainland citizens are anticipating further requirements to be introduced;
 - CBIRC issued updated rules since late 2022 for consumer rights protection and information disclosures, where insurers are required to establish mechanisms throughout the business strategy and product lifecycle with proper governance and customer protection. Sufficient product information and risk disclosures should be also provided for different life insurance products. These regulatory developments are intended to promote industry professionalisation, customer satisfaction, and sustainability in the long run;
 - In light of the continuous market developments in Fintech, sustainability and social media, CBIRC is constantly refining its supervisory directions including use of new technology for onsite examinations, offsite surveillance and intelligence for risk identification; and urged financial institutions to deploy emerging technologies to improve the way businesses manage regulatory compliance.
- In Indonesia, regulatory and supervisory focus on the insurance industry remains high. The Financial Services Authority of Indonesia, the Otoritas Jasa Keuangan ('OJK') has significantly revised investment linked products ('ILP') regulations with the aim of increasing insurance penetration and better protecting customer interests and improving market conduct. The final regulations were enacted in Q1 2022 for a full adoption in Q1 2023, and have implications for the product strategies and insurance and compliance risks for insurers. Industry discussion with respect to the implementation of some of the requirements under the new regulations is ongoing. General supervisory focus on insurer governance has increased, in particular on the autonomy of decision-making of local insurers. The OJK has also focused on consumer protection regulations more broadly, enacting updated regulations in April 2022, and has recently enhanced regulatory requirements on technology risk management. The Personal Data Protection Law came into effect in October 2022, which requires actions to enhance data protection governance and procedures including privacy assessments and designated data protection personnel within a two-year transition period. Moreover, a new financial sector law was passed by the Parliament. A notable change includes a new policy guarantee agency in the insurance sector. The Indonesia Deposit Insurance Corporation will expand their assurance coverage on bank savings to also include insurance in case of insurers going bankrupt, further details are expected.
- In Malaysia, the BNM has initiated a multi-phase review of its current RBC frameworks for insurers and takaful operators which has been conducted since 2019. The review aims to ensure that the frameworks remain effective under changing market conditions, facilitate consistent and comparable capital adequacy measurement across the insurance and takaful industry, where appropriate, and achieve greater alignment with key elements of the global capital standards such as ICS, where appropriate. The roll out of the RBC framework is planned in phases, which include quantitative impact studies carried out in 2022, the issuance of exposure drafts in 2023, a Qualitative Impact Study ('QIS') and a parallel run planned in 2024 prior to earliest implementation in 2025, subject to results of the QIS and parallel run.

- In Hong Kong, the Hong Kong IA has in place comprehensive regulations covering all aspects of the insurance product lifecycle. The regulator continues to place increasing focus of its supervision on culture and conduct aspects of local insurers. At the same time, the Hong Kong IA has sought to align the territory's insurance regime with international standards and has been developing a risk-based capital ('RBC') framework. The RBC framework comprises three pillars: quantitative requirements, including assessment of capital adequacy and valuation; qualitative requirements, including corporate governance, Enterprise Risk Management as well as Own Risk and Solvency Assessment; and public disclosures and transparency of information. The Hong Kong IA approved the early adoption of the framework at the Group's Hong Kong business in April 2022. In late 2022, the regulator also shared the ongoing industry priorities for 2023 including Insurtech, ESG, and cybersecurity, which are essential in enabling Hong Kong insurers' development in the Greater Bay Area, further regulatory developments are anticipated. The Hong Kong Government also proposed to establish a Policyholder Protection Scheme in December 2022 as a safety net for policyholders in the event of an insurer's insolvency. A public consultation is underway until end of March 2023, followed by an industry level consultation within the same year.
- In Thailand, the Personal Data Protection Commission was established in January 2022, as the regulator under Thailand's Personal Data Protection Act which became effective in June 2022.
- In Vietnam, the amended Insurance Law is set to take effect on 1 January 2023. Key amendments include provisions for online sales; regulating outsourcing; and training and registration obligations of agents. The new law also contains provisions on RBC, with a five-year grace period, effective from 1 January 2028.
- In India, the Insurance Regulatory and Development Authority of India ('IRDAI') continues to focus on industry reform by boosting innovation, competition, and distribution efficiencies, while moving towards a principle-based regulatory regime with considerations of technology developments. The regulator is in the process of relaxing capital requirements and setting distribution tie-up limits for corporate agents, as well as lengthening the experimentation period for sandbox in order to introduce further ease of doing business for growing India's insurance penetration by 2030.

The increasing use of emerging technological tools and digital services across industry, is likely to lead to new and unforeseen regulatory requirements and issues, including expectations regarding the governance and ethical use of technology, artificial intelligence and data. Distribution and product suitability linked to innovation continues to set the pace of conduct regulatory change in Asia. Prudential falls under the scope of these conduct regulations requiring that regulatory changes are appropriately implemented.

The pace and volume of climate-related regulatory changes is also increasing. Regulators including the Hong Kong IA, the Monetary Authority of Singapore, the BNM in Malaysia and the Financial Supervisory Commission in Taiwan are in the process of developing supervisory and disclosure requirements or guidelines related to environmental and climate change risk management. Other regulators are expected to develop, or are at the early stages of developing, similar requirements. While the Hong Kong IA has yet to propose any insurance-specific regulations on sustainability and climate, it has regularly emphasised its increasing focus in this area in order to support Hong Kong's position as a regional green finance hub, and industry consultations are expected from the Hong Kong IA in 2023. International regulatory and supervisory bodies, such as the International Sustainability Standards Board ('ISSB') and Taskforce on Nature-related Disclosures, are progressing on global ESG and sustainability-related disclosure requirements. Recent high-profile examples of government and regulatory enforcement and civil actions against companies for misleading investors on ESG and sustainability-related information demonstrate that disclosure, reputational and litigation risks remain high and may increase, in particular as companies increase their disclosures or product offerings in this area. These changes and developments may give rise to regulatory compliance, customer conduct, operational, reputational and disclosure risks requiring Prudential to coordinate across multiple jurisdictions in order to apply a consistent risk management approach.

The rapid pace and high volume of regulatory changes and interventions, and swiftness of their application including those driven by the financial services industry, have been observed in recent years across many of the Group's markets. The transformation and regulatory changes have the potential to introduce new, or increase existing, regulatory risks and supervisory interest while increasing the complexity of ensuring concurrent regulatory compliance across markets driven by potential for increased intra-Group connectivity and dependencies. In jurisdictions with ongoing policy initiatives and regulatory developments which will impact the way Prudential is supervised, these developments are monitored at market and group level and inform the Group's risk framework and engagement with government policy makers, industry groups and regulators.

(d) IFRS 17

IFRS 17 became effective from 1 January 2023 and the first external reporting under this basis will be from half year 2023. The new standard requires a fundamental change to accounting, presentation and disclosures for insurance contracts as well as the application of significant judgement and new estimation techniques. The Group has been implementing IFRS 17 through a Group-wide implementation programme over a multi-year period, involving significant enhancements to technology, actuarial and finance systems and processes across the Group. The Group has yet to complete production of its 2022 comparatives using the IFRS 17 accounting standard. IFRS 17 presents a significant change to the method of accounting for insurance contracts. Therefore, in the short term, it may take time for investors, rating agencies and other stakeholders to gain familiarity with the new standard and to interpret the Group's business performance and dynamics as reported under IFRS 17, and in particular to understand the comparisons with previous financial periods.

Apart from IFRS 17, any other changes or modification of IFRS accounting policies may also require a change in the way in which future results will be determined and/or a retrospective adjustment of reported results to ensure consistency.

(e) Inter-bank offered rate ('IBOR') reforms

In July 2014, the FSB announced widespread reforms to address the integrity and reliability of IBORs. The discontinuation of IBORs in their current form and their replacement with alternative risk-free reference rates such as the Secured Overnight Financing Rate ('SOFR') in the US and the Singapore Swap Offer Rate ('SOR') could, among other things, impact the Group through an adverse effect on the value of Prudential's assets and liabilities which are linked to or which reference IBORs, a reduction in market liquidity during any period of transition and increased legal and conduct risks to the Group arising from changes required to documentation and its related obligations to its stakeholders.

(f) Investor contribution schemes

Various jurisdictions in which Prudential operates have created investor compensation schemes that require mandatory contributions from market participants in some instances in the event of a failure of a market participant. As a major participant in the majority of its chosen markets, circumstances could arise in which Prudential, along with other companies, may be required to make such contributions.

4.2 The conduct of business in a way that adversely impacts the fair treatment of customers could have a negative impact on Prudential's business, financial condition, results of operations and prospects or on its relations with current and potential customers.

In the course of its operations and at any stage of the customer and product lifecycle, the Group or its intermediaries may conduct business in a way that adversely impacts customer outcomes and the fair treatment of customers ('conduct risk'). This may arise through a failure to design, provide and promote suitable products and services to customers that meet their needs, are clearly explained or deliver real value, provide and promote a high standard of customer service, appropriately and responsibly manage customer information, or appropriately handle and assess complaints. A failure to identify or implement appropriate governance and management of conduct risk may result in harm to customers and regulatory sanctions and restrictions, and may adversely impact Prudential's reputation and brand, its ability to attract and retain customers, its competitiveness, and its ability to deliver on its long-term strategy. There is an increased focus by regulators and supervisors on customer protection, suitability, and inclusion across the markets in which the Group operates, therefore increasing regulatory compliance and reputational risks to the Group in the event the Group is unable to effectively implement the regulatory changes and reforms stated in risk factor 4.1 above.

Prudential is, and in the future may continue to be, subject to legal and regulatory actions in the ordinary course of its business on matters relevant to the delivery of customer outcomes. Such actions relate, and could in the future relate, to the application of current regulations or the failure to implement new regulations, regulatory reviews of broader industry practices and products sold (including in relation to lines of business that are no longer active) in the past under acceptable industry or market practices at the time and changes to the tax regime affecting products. Regulators may also focus on the approach that product providers use to select third-party distributors and to monitor the appropriateness of sales made by them and the responsibility of product providers for the deficiencies of third-party distributors.

There is a risk that new regulations introduced may have a material adverse effect on the sales of the products by Prudential and increase Prudential's exposure to legal risks. Any regulatory action arising out of the Group's position as a product provider could have an adverse impact on the Group's business, financial condition, results of operations and prospects, or otherwise harm its reputation.

4.3 Litigation, disputes and regulatory investigations may adversely affect Prudential's business, financial condition, cash flows, results of operations and prospects.

Prudential is, and may in the future be, subject to legal actions, disputes and regulatory investigations in various contexts, including in the ordinary course of its insurance, investment management and other business operations. These legal actions, disputes and investigations may relate to aspects of Prudential's businesses and operations that are specific to Prudential, or that are common to companies that operate in Prudential's markets. Legal actions and disputes may arise under contracts, regulations or from a course of conduct taken by Prudential, including class action litigation. Although Prudential believes that it has adequately provided in all material respects for the costs of litigation and regulatory matters, no assurance can be provided that such provisions are sufficient. Given the large or indeterminate amounts of damages sometimes sought, other sanctions that might be imposed and the inherent unpredictability of litigation and disputes, it is possible that an adverse outcome could have an adverse effect on Prudential's business, financial condition, cash flows, results of operations and prospects.

4.4 Changes in tax legislation may result in adverse tax consequences for the Group's business, financial condition, results of operations and prospects.

Tax rules, including those relating to the insurance industry, and their interpretation may change, possibly with retrospective effect in any of the jurisdictions in which Prudential operates. Significant tax disputes with tax authorities, and any change in the tax status of any member of the Group or in taxation legislation or its scope or interpretation could affect Prudential's business, financial condition, results of operations and prospects.

The Organisation for Economic Co-operation and Development ('OECD') is currently undertaking a project intended to modernise the global international tax system, commonly referred to as Base Erosion and Profit-Shifting 2.0. The project has two pillars. The first pillar is focused on the allocation of taxing rights between jurisdictions for in-scope multinational enterprises that sell cross-border goods and services into countries with little or no local physical presence. The second pillar is focused on developing a global minimum tax rate of 15 per cent applicable to in-scope multinational enterprises.

On 8 October 2021 the OECD issued a statement setting out the high level principles which have been agreed by over 130 jurisdictions involved in the project. Based on the 8 October 2021 OECD statement, Prudential does not expect to be affected by proposals under the first pillar given they include an exemption for regulated financial services companies.

On 20 December 2021 the OECD published detailed model rules for the second pillar, with implementation of the rules initially envisaged by 2023. These rules will apply to Prudential when implemented into the national law of jurisdictions where it has entities within the scope of the rules. On 14 March 2022 the OECD issued detailed guidance to assist with interpreting the model rules. On 20 December 2022 the OECD issued additional documents including proposals for safe harbours and a consultation on the proposed information return. On 2 February 2023 the OECD also issued its first tranche of agreed administrative guidance which is intended to ensure that the model rules are implemented and applied in a co-ordinated manner. It is expected that a revised version of the guidance (which was issued in March 2022) will be released later this year. Furthermore, the OECD is expected to publish further agreed administrative guidance on an ongoing basis.

On 17 November 2022 the UK government confirmed its intention to implement rules into UK legislation for the second pillar through inclusion in the Spring Finance Bill 2023 with the rules applying to accounting periods beginning on or after 31 December 2023. On 23 December 2022, the parliament of the Republic of Korea approved the budget bill for 2023 which includes the enactment of rules for the second pillar. This enactment of the rules in the Republic of Korea is not, in isolation, expected to have any impact for Prudential.

A number of jurisdictions in which Prudential has operations have indicated that consideration is being given to introducing a domestic minimum tax for in-scope multinationals alongside introducing the model rules. As Prudential operates in a number of jurisdictions where the effective tax rate can be less than 15 per cent, the implementation of the model rules and/or equivalent domestic minimum tax rules may have an adverse impact on the Group. Until all expected OECD documents are published and details of implementing domestic legislation in relevant jurisdictions are available, the full extent of the long-term impact on Prudential's business, tax liabilities and profits remain uncertain.