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Prudential plc
保誠有限公司*

*(Incorporated and registered in England and Wales with limited liability under the number 01397169)
(Stock Code: 2378)*

**PRESS RELEASE AND HALF YEAR RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2022**

NEWS RELEASE

10 August 2022

PRUDENTIAL PLC HALF YEAR 2022 RESULTS



PRUDENTIAL CONTINUES TO DELIVER RESILIENT OPERATIONAL PERFORMANCE AMIDST MARKET VOLATILITY

Performance highlights for the continuing business¹ on a constant (and actual) exchange rate basis²

- APE sales³ up 9 per cent (6 per cent) to \$2,213 million reflecting diversified geographic footprint, product mix and distribution channels
- New business profit⁴ fell by (5) per cent ((7) per cent) to \$1,098 million following the impact of higher interest rates and differences in geographical and channel mix
- Adjusted operating profit⁵ up 8 per cent (6 per cent) to \$1,661 million
- Shareholder GWS capital surplus over GMCR, following Hong Kong and China regulatory changes, remains strong and resilient with a coverage ratio of 548 per cent⁶. Shareholder GWS capital surplus over GPCR was \$16.2 billion⁷, equivalent to a coverage ratio of 317 per cent⁸

Mark FitzPatrick, Group Chief Executive, said: “Our resilient operational performance demonstrates the strength of our well positioned and well diversified franchise across the Asia region, driven by our multi-channel, digitally enhanced distribution platform. This enabled us to maintain APE sales growth over the first quarter, despite considerable Covid-19-related disruption in many markets. We achieved stronger APE sales growth in the second quarter as conditions started to normalise in most markets. New business profit was (5) per cent⁹ lower as the benefit of higher APE sales was offset by the impact of higher interest rates under our EEV methodology, lower sales in Hong Kong, where margins have traditionally been higher, and an increase in bancassurance sales. Excluding the effects of interest rates and other economic changes, new business profit was broadly flat when compared with the corresponding period in 2021.

“The Group’s adjusted operating profit was up 8 per cent⁹, driven by a 6 per cent⁹ increase in life and asset management adjusted operating profit combined with a 32 per cent⁹ reduction in central costs, as interest costs fell following our \$2.25 billion debt redemption programme that completed in January 2022. We are on track to deliver a \$70 million¹⁰ reduction in head office costs by the start of 2023 in addition to the \$180 million saving achieved following the demerger of the UK business. The first 2022 interim dividend is 5.74 cents per share, up 7 per cent¹¹, equating to one third of the prior year full-year dividend of 17.23 cents per share.

“We continue to invest in the business including extending Pulse beyond a consumer app so that it covers Prudential’s key business processes, from enabling agents by using tools designed to enhance productivity, to fulfilment of policy sales and servicing. Ultimately we believe this will help drive greater customer centricity and efficiency. In addition, via the Pulse platform, we are able to add additional distribution capability, allowing access to new channels and new customer segments which extend beyond our existing distribution footprint.

“Our Group-wide Supervision Framework (GWS) capital position is strong and resilient. The Hong Kong Insurance Authority (IA) approved our application to early adopt the RBC framework in Hong Kong, and this is incorporated within our GWS position at 30 June 2022. The Group’s shareholder surplus above the Group Minimum Capital Requirement (GMCR) was \$19.4 billion¹², representing a cover ratio of 548 per cent⁶. The Group aligns its established EEV and free surplus framework with the Group’s Prescribed Capital Requirement (GPCR). At 30 June 2022, our shareholder surplus above the GPCR was \$16.2 billion⁷ and results in a coverage ratio of 317 per cent⁸.

“The first half of the year 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 combined impact of these factors on our balance sheet, with the fall in investments exceeding the reduction in liabilities, led to a significant fall in IFRS profit after tax for continuing operations from \$1,070 million¹¹ in the first half of 2021 to \$106 million in the first half of 2022 and also led to a reduction in EEV under our active economic methodology.

“Our Moody’s total leverage ratio at 30 June 2022 was estimated to be 22 per cent, well within our target range of 20-25 per cent, demonstrating our financial flexibility following recent actions.

“From a leadership perspective, as previously announced, we are delighted that Anil Wadhvani will join Prudential as Group CEO in February 2023. He will join a growth business, with a multi-channel distribution model and a distinctive geographic footprint, combined with the agility to grow and serve its customers even against the backdrop of the challenges of the Covid-19 pandemic. Although there are signs that Covid-19-related impacts in many of our markets are stabilising, over the remainder of the year we expect that operating conditions may continue to be challenging. We remain confident that Prudential has the financial resilience, capital strength and capability to meet the growing health 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.”

Summary financials	Half year	Half year	Change on AER basis ²	Change on CER basis ²
	2022 \$m	2021 \$m		
New business profit from continuing operations ^{1,4}	1,098	1,176	(7)%	(5)%
Operating free surplus generated from continuing operations ^{1,13}	1,224	1,112	10%	12%
Adjusted operating profit from continuing operations ^{1,5}	1,661	1,571	6%	8%
IFRS profit after tax from continuing operations ¹	106	1,070	(90)%	(90)%
	30 Jun 2022		31 Dec 2021	
	Total	Per share	Total	Per share
EEV shareholders’ equity	\$42.3bn	1,539¢	\$47.4bn	1,725¢
IFRS shareholders’ equity	\$16.1bn	586¢	\$17.1bn	622¢

Notes

- 1 Continuing operations represents the Asia, Africa and head office functions of the Group following the demerger of Jackson.
- 2 Further information on actual and constant exchange rate bases is set out in note A1 of the IFRS financial results.
- 3 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 period 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 financial information for further explanation.
- 4 New business profit, on a post-tax basis, on business sold in the period, calculated in accordance with EEV Principles.
- 5 In this press release '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.
- 6 GWS coverage ratio of capital resources over Group minimum capital requirement attributable to the shareholder business.
- 7 GWS capital resources in excess of the Group prescribed capital requirement attributable to the shareholder business, before allowing for the 2022 first cash interim dividend. The shareholder position excludes the contribution to Group eligible capital resources and the Group prescribed capital requirements from participating business in Hong Kong, Singapore and Malaysia. Under the GWS Framework, all debt instruments (senior and subordinated) issued by Prudential plc at 30 June 2022, except the \$350 million senior debt issued in the first half of 2022, are included as GWS eligible group capital resources.
- 8 GWS coverage ratio of capital resources over Group prescribed capital requirement attributable to the shareholder business. 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 GWS group capital adequacy requirements require that total eligible group capital resources are not less than the Group Prescribed Capital Requirements (GPCR) and that GWS Tier 1 group capital resources are not less than the Group Minimum Capital Requirements (GMCR).
- 9 On a constant exchange rate basis.
- 10 Annual saving from full year 2021 costs, based on full year 2021 exchange rates.
- 11 On an actual exchange rate basis.
- 12 GWS capital resources in excess of the Group minimum capital requirement attributable to the shareholder business, before allowing for the 2022 first cash interim dividend. The shareholder position excludes the contribution to Group eligible capital resources and Group minimum capital requirement of participating business in Hong Kong, Singapore and Malaysia. Under the GWS Framework, all debt instruments (senior and subordinated) issued by Prudential plc at 30 June 2022, except the \$350 million senior debt issued in the first half of 2022, are included as GWS eligible group capital resources.
- 13 Operating free surplus generated from insurance and asset management operations before restructuring costs. For insurance operations, operating free surplus generated represents amounts emerging from the in-force business during the period 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 period. Restructuring costs are presented separately from the business unit amount. Further information is set out in 'movement in Group free surplus' of the EEV financial results.

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Notes to editors:

- a. The results in this announcement are prepared on two bases: International Financial Reporting Standards (IFRS) and European Embedded Value (EEV). The results prepared under IFRS form the basis of the Group's statutory financial statements. The supplementary EEV financial results have been prepared in accordance with the amended European Embedded Value Principles issued by the European Insurance CFO Forum in 2016. The Group's EEV financial results are stated on a post-tax basis and include the post-tax IFRS financial results of the Group's asset management and other operations. The IFRS and EEV results are presented in US dollars and the basis of translation is discussed in note A1 of the IFRS financial statements. Period-on-period percentage increases are stated on a constant exchange rate basis unless otherwise stated. Constant exchange rates are calculated by translating prior period results using the current period foreign exchange rate ie current period average rates for the income statement and current period closing rates for the balance sheet.
- b. EEV and adjusted IFRS operating profit for continuing operations 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. Furthermore, for EEV financial results, operating profit based on longer-term investment returns excludes the effect of changes in economic assumptions and the mark-to-market value movement on core borrowings. Separately on the IFRS basis, adjusted operating profit also excludes amortisation of acquisition accounting adjustments.
- c. Total number of Prudential plc shares in issue as at 30 June 2022 was 2,749,314,856.
- d. We are expected to announce our Half Year 2022 Results to the Hong Kong Stock Exchange and to the UK Financial Media at **12.00pm HKT – 5.00am UKT – 12.00am ET on Wednesday, 10 August 2022.**

The announcement will be released on the London Stock Exchange at **2.00pm HKT – 7.00am UKT – 2.00am ET on Wednesday, 10 August.**

A pre-recorded presentation for analysts and investors will be available on-demand from **12.00pm HKT – 5.00am UKT – 12.00am ET on Wednesday, 10 August 2022** using the following link: <https://www.investis-live.com/prudential/62d51c1fd9438014009aa544/hebae>. A copy of the script used in the recorded video will also be available from **12.00pm HKT – 5.00am UKT – 12.00am ET on Wednesday, 10 August 2022** on Prudential plc's website.

A Q&A video conference for analysts and investors will be held at **1.00pm HKT – 6.00am UKT – 1.00am ET on Wednesday, 10 August.**

Registration to view the video conference online

To register to watch the video conference and submit questions online, please do so via the following link: <https://www.investis-live.com/prudential/62d52566d9438014009d4b1b/bmppi>. The webcast will be available to replay afterwards using the same link.

Dial-in details

A dial-in facility will be available to listen to the call 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 **12.30pm HKT – 5.30am UKT – 12.30am ET**).

Dial-in: 580 33 413 (HK) / +44 (0) 20 3936 2999 (UK and international) / 010 5387 5828 (China), Toll free: 800 908 350 (HK) / 0800 640 6441 (UK), Participant access code: **570192**. 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 the Prudential plc's website on Friday 12 August 2022.

Playback facility

Please use the following for a playback facility: +44 (0) 20 3936 3001 (UK and international), replay code **744029**. This will be available from approximately 10.00pm HKT – 3.00pm UKT – 10.00am ET on 10 August until 6.59am HK time on 25 August 2022 – 11.59pm UKT – 6.59pm ET on 24 August.

e. 2022 First interim ordinary dividend

Ex-dividend date	18 August 2022 (Hong Kong, UK and Singapore)
Record date	19 August 2022
Payment of dividend	27 September 2022 (Hong Kong, UK and ADR holders) On or around 4 October 2022 (Singapore)

f. About Prudential plc

Prudential plc provides life and health insurance and asset management in Asia and Africa. 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 more than 19 million life customers and is listed on stock exchanges in London (PRU), Hong Kong (2378), Singapore (K6S) and New York (PUK). 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/>.

g. Discontinued operations

Throughout this results announcement 'discontinued operations' refers to the US operations (Jackson). All amounts presented refer to continuing operations unless otherwise stated, which reflect the Group following the completed demerger of Jackson.

h. Prudential will file an Interim Report on Form 6-K with the Securities and Exchange Commission shortly and it will be available in due course on the Prudential plc website.

i. Forward-looking statements

This document may contain '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 its 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, 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 Prudential's actual future financial condition or performance or other indicated results of the entity referred to in any forward-looking statement to differ materially from those indicated in such 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 interest rate rises as a response), 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 impact of Covid-19 outbreaks, including adverse financial market and liquidity impacts, responses and actions taken by governments, regulators and supervisors, the impact on sales, claims and assumptions and increased product lapses, disruption to Prudential's operations (and those of its suppliers and partners), risks associated with new sales processes and technological and information security risks; 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 its 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 and financial impacts of climate change and global health crises on Prudential's business and operations; the impact of not adequately responding to environmental, social and governance issues (including not properly considering the interests of Prudential's stakeholders or failing to maintain high standards of corporate governance); 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; any ongoing impact on Prudential of the demerger of Jackson Financial Inc.; the increased operational 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 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 and the 'Risk Factors' heading in Prudential's 2021 Annual Report. Prudential's 2021 Annual Report is available on its website at www.prudentialplc.com.

These factors are not exhaustive as 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.

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.

j. 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.

Strategic and operating review

2022 is the first year in which the Group is focused entirely on the long-term opportunities we have identified in Asia and Africa across life insurance and asset management. Our purpose remains to help people get the most out of life. Across Asia, a growing middle class, forecast to increase by 1.5 billion¹ by 2030, is combined with a low level of insurance penetration and a high level of out-of-pocket health and protection spending, driving an estimated \$1.8 trillion health protection gap². We continue to focus on developing our range of products and distribution as well as enhancing and embedding our digital capabilities so we can 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.

The Group's total life customer³ base at 30 June 2022 was 19.3 million (31 December 2021: 18.6 million). Our customers are core to what we do and our products are tailored to meet their fast-changing needs as well as the developing requirements of local markets. Our continued focus on the needs of customers is demonstrated by the launch of Prudential Syariah, a standalone Syariah life insurance entity in Indonesia, launched in April, becoming the first global insurer to do so. Building on our leading position in the Syariah market in Indonesia¹⁸, Prudential Syariah has a designated Syariah board which confirms that products have complied with Syariah principles. Prudential Syariah's innovative product capabilities, coupled with a strong multi-channel distribution network, puts it in a strong position to grow our Syariah business in Indonesia, and expand our customer reach. In Malaysia we have maintained our leading position in the Takaful segment⁴.

We have a multi-channel and integrated distribution strategy that is able to adapt flexibly to changing local market conditions and supports our growth ambitions. This distribution network encompasses agency, bancassurance and non-traditional partnerships, including digital. Our continued investment in our agency channel positions us well for sustainable growth. We have over 530,000 licenced tied agents (31 December 2021: over 540,000) across our life insurance markets. Our bancassurance channel has access to over 170 bancassurance partners, of which 32 are exclusive arrangements, giving us access to circa 27,600 bank branches. 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, has enabled us to deliver a resilient operational performance despite continuing Covid-19-related disruption in many markets during the first half of 2022.

The operating environment of the Group in the first half of 2022 has continued to be impacted by the volatility caused by the consequences of Covid-19-related government imposed movement restrictions in most of our markets. During the first quarter of 2022, a number of our markets saw increases in incidence of the Omicron variant, with cases peaking in India and the Philippines in January, in Indonesia in February and Thailand, Vietnam, Malaysia, Singapore and Hong Kong in March 2022. Trading conditions largely normalised in these markets over the course of the second quarter. In the Chinese Mainland, cases peaked in April⁵ and associated restrictions have gradually reduced in July. The border with Hong Kong however remains closed. In the first half of 2019 (prior to the Covid-19 pandemic) new business profit⁶ from our Chinese Mainland business contributed \$694 million⁷ to Hong Kong's total new business profit in that period, compared with close to nil in the first half of 2022.

Against this backdrop, in the first half of 2022 Prudential delivered APE sales⁸ of \$2,213 million an increase of 9 per cent⁹ compared with the first half of 2021. Our growth was broad-based, with 9 of our 12 Asia life markets, together with our Africa business, seeing growth in the period. APE sales are balanced across product types, with our four product categories (health and protection, participating contracts, non-participating savings and investment-linked savings), each contributing over 20 per cent of APE sales. CITIC Prudential Life (CPL), our Chinese Mainland business, increased APE sales 13 per cent⁹, Singapore was up 5 per cent⁹ and within our Growth Markets segment, Taiwan was up 55 per cent⁹, Vietnam was up 19 per cent⁹ and Africa was up 17 per cent⁹. This more than offset the lower sales in Hong Kong, where agency sales were disrupted by Covid-19-related restrictions over much of the first quarter. We achieved stronger APE sales growth in the second quarter as conditions normalised in most markets. New business profit was \$1,098 million, (5) per cent⁹ lower as the benefit of higher overall APE sales was offset by the impact of higher interest rates under our EEV methodology, particularly in Hong Kong, together with lower sales in Hong Kong, where margins have traditionally been higher and an increase in bancassurance sales mix which tends to have a higher proportion of savings products. Our continued customer focus has contributed to our customer retention rate remaining high at over 90 per cent²³ in the first half of 2022 (2021 full year: 89 per cent).

APE sales and new business profit reflect our multi-channel distribution with bancassurance providing 53 per cent of APE sales and 42 per cent of new business profit and agency providing 36 per cent of APE sales and 53 per cent of new business profit. Over the first half of 2022 bancassurance sales increased by 25 per cent⁹, driven by new products and momentum from our recently established partnerships, including TSB in Taiwan. Agency channel APE sales fell (13) per cent⁹, adversely affected by Covid-19-related restrictions. Our agency channel is a key component of our success, given the high proportion of high-margin protection products sold through this channel.

We continue to equip our agency force with the advanced methods needed to be connected with customers, to build trust and provide personalised advice. We are re-engineering each facet of the 'prospect, engage and advise' chain to suit the digital citizens of today as well as maintaining the direct contact that customers want. The decline of overall agency APE sales of (13) per cent⁹ was driven both by Covid-19-related restrictions and as a result of lower average case sizes, as agents have been focused on relatively smaller ticket health and protection propositions that were top of mind for our customers during the period affected by Covid-19. While overall health and protection as a proportion of APE sales fell, the number of health and protection cases sold via agency increased by 13 per cent and resulted in case productivity per agent growing 4 per cent compared with that of the first half of 2021. We are reinvigorating our agency force through our flagship recruitment programme targeting professional and experienced agents, which has led to a 5 per cent increase in new recruits in the period compared with the first half of 2021. We continue to focus on the training and retraining of both our agents and their leaders to increase our customer orientation and to maintain a high standard of professionalism across the agency force.

Eastspring, our pan-Asia asset manager with presence in 11 Asian markets as well as distribution offices in North America and Europe, is well placed to address the saving and investment needs of customers across the region via a team of 300 investment professionals with local market expertise. Eastspring also benefits from reliable and stable fund inflows from the Group's life business 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.

Despite recent Covid-19-related disruption, the Group's life businesses delivered growth in adjusted IFRS operating profit based on longer-term investment returns (adjusted operating profit¹⁰) of 7 per cent⁹. Investment losses in the period contributed to a fall in Eastspring's adjusted operating profit of (15) per cent⁹. Collectively our life and asset management businesses delivered 6 per cent⁹ growth in adjusted operating profit and 12 per cent⁹ growth in operating free surplus generation. After central costs, total Group adjusted operating profit was up 8 per cent⁹, and total Group operating free surplus generation¹¹ increased 22 per cent⁹. The total IFRS profit after tax for 2022 was \$106 million (2021: \$1,025 million profit after tax from continuing operations on a constant exchange rate basis, \$1,070 million profit after tax from continuing operations on an actual exchange rate basis). This reflects the net impact from an increase in interest rates on bond asset values and on the valuation interest rates used for policyholder liabilities, decreases in equity values and the benefit from refinements to the reserving basis following the adoption of the Hong Kong Risk-Based Capital regime. The Group's financial performance for the period is further discussed in the Financial Review below.

Pulse and our digital offerings

The Pulse digital platform is focused on the health, wealth and servicing needs of our customers. It extends beyond the Pulse app to include the Group's key business processes, from enabling agents by using tools designed to enhance hiring and productivity, to fulfilment of policy sales and servicing, helping to drive greater customer centricity and efficiency. The Pulse platform complements our agents, allowing customers to interact both online and in person, helping to improve persistency. Our digital strategy is wholly focused on our customers and distribution partners, delivering products and services in an effective and efficient way. The foundation of this digital strategy is built on four core pillars, supported by the Pulse platform:

- Accelerating our digitally enabled model of distribution: via PruForce, our all-in-one agency platform that aggregates data to provide insight on customers and supports improved agent productivity, and augmenting other existing and new distribution channels.
- Improving servicing to new and existing customers: via PruServices, our platform that enables customers to manage their policy details and payments in real time, as well as enabling digital claims and selection of investment funds for linked policies.
- Strengthening our direct digital insurance product suite: broadening range, functionality and availability via digital channels.
- Creating new business verticals, ecosystems and strategic partnerships: to drive future customer acquisition opportunities.

Via the Pulse app, we are able to add additional distribution capability, allowing access to new channels and new customer segments which extend beyond our existing distribution footprint. The app is designed to connect with customers and in turn enable our distribution channels to connect, maintain and better serve new and existing customers. The Pulse strategy of selling bite-sized insurance products directly and leveraging our agency force to convert leads also extends to our non-traditional partners, by helping them engage with their customers (on financial needs) despite not having a sales force of their own.

Our digital systems recorded 4.8 million leads¹² for the six months ending 30 June 2022 (year to 31 December 2021: 4.3 million) and APE sales associated with these leads¹³ were stable⁷ period-on-period at \$158 million. These sales represented circa 25 per cent (half year 2021: 21 per cent⁷) of our agency APE sales in markets where Pulse is available.

We continue to see increased agent adoption of the Pulse platform across the region and expect this to continue for the remainder of 2022, as the latest iteration of the platform modules are rolled-out. The growing number of leads generated continues to be nurtured by our agents for potential future cross-sell and upsell opportunities.

Environmental, Social and Governance (ESG)

Our role in the lives of our customers, colleagues and communities, and our commitment to being a responsible leader, lie at the heart of our business strategy and our future. We recognise the significant role Prudential can continue to play across Asia and Africa, as well as in the long-term success, resilience and health of the global community.

During 2021, Prudential strengthened its focus on ESG, building on the new ESG strategic framework that we developed in 2020. This framework is aligned to our business strategy and our purpose of helping people to get the most out of their lives by making healthcare affordable and accessible and by promoting financial inclusion. During the first half of 2022, we continued to work towards our ambition of being an ever more responsible and sustainable business, advancing our ESG priorities across a broad range of activities. Our ESG strategy remains resolutely focused on making progress against our three pillars of making health and financial security accessible, stewarding the human impacts of climate change and building social capital. These are underpinned by our approach to responsible investment, good governance and responsible business practices, and community engagement and investment and have clear alignment with our business strategy.

While we have made good progress in just a couple of years, we must continue to maintain the pace, as the needs of the customers and communities we serve evolve rapidly, the expectations of our stakeholders rightly grow and climate change brings unprecedented challenges to our future.

Making health and financial security accessible

Digital innovation is key to this pillar. To help people thrive, we seek to make health and financial security accessible and affordable and we do this in a number of ways. These include making healthcare services and financial management tools easily available, and developing more inclusive products and services for underserved segments of society, for example by making products suitable for a wider range of income groups through our lower premium 'bite-sized' insurance products. We also seek to meet the changing needs of our customers by ensuring they have the best access to our products through our multi-channel and integrated distribution approach. Finally we promote financial literacy so that people gain knowledge of financial management and have a deeper understanding of protection benefits. During the first half of 2022, we launched our 'Made For Every Family' campaign across Asia. This recognises that modern families exist in many forms, such as grandparents-grandchildren families, single-parent families, stepfamilies and same-sex families. To support this diversity of family structures with inclusive protection solutions, we are rolling out a range of insurance products that are 'Made For Every Family', and have expanded the list of beneficiaries for our life insurance policies to give greater flexibility to protect all those that our customers care about. Our focus on ensuring inclusive offerings in all our markets was epitomised when we became the first global insurer to set up a dedicated, standalone Syariah entity in Indonesia. This underscored our deep commitment to support the growth of Indonesia's Syariah economy and the country's vision to become the global hub for Islamic financial solutions. Prudential Syariah offers solutions that are based on the 'Syariah for All' principles. This set of principles embraces the concept that Syariah values are universal, inclusive and relevant to all Indonesians.

Stewarding the human impacts of climate change

Prudential is well placed to contribute to the transition to a low-carbon economy. To support building a greener future, during 2021, we underscored our commitment to decarbonising our investment portfolio¹⁴ through the setting of a long-term net zero target and a short-term carbon reduction target. We remain on track with our commitment to reduce our Weighted Average Carbon Intensity (WACI) by 25 per cent by 2025 and to engage with companies responsible for more than 65 per cent of our emissions. Having divested from all direct equity investments in businesses that derive more than 30 per cent of their income from coal in 2021, we are on track to be fully divested from all fixed income investments meeting the same criteria by the end of 2022. As part of our ongoing embedding of climate considerations into our risk management processes, our annual Own Risk and Solvency Assessment report, reviewed by our Group Risk Committee in May 2022, included both the potential financial and operational impact of the Network for Greening the Financial System (NGFS)-informed climate scenarios. As we support the move to low-carbon economies in our emerging markets, we strive to ensure that the transition is a just and inclusive one for all of society, a transition that supports sustainable growth and economic health within our local markets and communities.

Building social capital

As we do all of this, we seek to build trusted relationships with our people, on whom our success depends. Our commitment to diversity and inclusion, together with gender equality and women's empowerment within our broader activity was further emphasised in the first half of 2022 by our adoption of the United Nation's Women's Empowerment Principles.

As digital innovation is central to our aim of helping our customers to be healthier and wealthier, we are ambitious and we act with integrity in regard to digital responsibility. We safeguard the public's trust in us through digital responsibility and responsible business practices. Strong governance remains the foundation of our business and critical to maintaining trust with our stakeholders.

Leadership Changes

During the first half of 2022, the Board completed its executive succession planning with the announcement that it had appointed Anil Wadhvani as Group Chief Executive Officer (CEO) with effect from 25 February 2023, subject to final regulatory approval. Following his appointment, the Group's executive directors will be based in Hong Kong, alongside the lead regulator, closer to the Group's Asia operations.

The internal promotions of Mark FitzPatrick to Group CEO, 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. The Group continues to benefit from broad based and experienced local leadership teams who are deep rooted in their markets.

To support the ongoing evolution of the Group, Seck Wai-Kwong, CEO, Eastspring; Dennis Tan, CEO, Prudential Singapore; Lilian Ng, CEO, Insurance; and Solmaz Altin, Group Chief Strategy and Transformation Officer, have all been promoted to the Group Executive Committee (GEC) with effect from 1 July 2022. Mr Tan, Ms Ng and Mr Altin have been 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 has been further enhanced with the appointment, from 4 July 2022, of Lawrence Lam as the new CEO of the Hong Kong insurance business.

Outlook

Prudential is a growth business, with a multi-channel distribution model and a distinctive geographic footprint, combined with the agility to grow and serve our customers even against the backdrop of the challenges of the Covid-19 pandemic. Although there are signs that Covid-19-related impacts in many of our markets are stabilising, over the remainder of the year we expect that operating conditions may continue to be challenging. We remain confident that Prudential has the financial resilience, capital strength and capability to meet the growing health 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.

New business performance by market

The following commentary provides an update on the new business performance for each of the Group's segments. Discussion of the wider financial performance of the Group and its segments, including adjusted operating profit and IFRS profit after tax, is contained separately in the Financial Review section of this report.

Chinese Mainland – CITIC Prudential Life (CPL)

	Actual exchange rate			Constant exchange rate	
	Half year 2022	Half year 2021	Change	Half year 2021	Change
APE sales (\$m)	507	448	13%	447	13%
New business profit (\$m)	217	228	(5)%	227	(4)%
New business margin (%)	43	51	(8)ppts	51	(8)ppts
Adjusted operating profit (\$m)	149	139	7%	139	7%
IFRS (loss)/profit after tax (\$m)	(28)	148	(119)%	149	(119)%

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

CPL saw APE sales growth of 13 per cent⁹ to \$507 million despite headwinds from Covid-19-related restrictions. This growth has been underpinned by CPL's nationwide footprint of 23 branches¹⁵, covering 99 cities, and its well-diversified distribution network, with strength in both agency and bancassurance, and balanced product range of wealth, protection and education solutions.

CPL's bancassurance channel delivered APE sales growth of 28 per cent⁹ over the period with strong sales of long-term savings products. This was supported by 11 new bancassurance partnerships over the past 12 months, and the number of bank branches increasing by 50 per cent to over 6,100. Our agents focused on innovative medical plans during the first 6 months of 2022, which were extremely popular with our customers, resulting in health and protection policies growing by 53 per cent. Overall, agency sales fell by (11) per cent⁹, mainly due to lower average case size. The prior period benefited from strong critical illness product sales ahead of regulatory driven definition changes which did not recur in the current period. In December 2021, CPL launched a new critical illness plan tailored to the Greater Bay Area (GBA). In the first half of 2022, this plan accounted for 12 per cent of CPL's total critical illness sales.

Despite the increase in new business volumes, new business profit declined (4) per cent⁹ compared with the same period in 2021 following a fall in the new business margin of (8) percentage points to 43 per cent. This decrease is in part the result of an adverse shift in both channel mix and product mix, with the former the result of a shift in mix towards bancassurance sales highlighted above and the latter driven by exceptional levels of sales of critical illness business in the comparator, in line with industry wide trends.

CPL continues to outgrow the sector as a whole. In the first half of 2022, CPL increased its overall market share to 0.77 per cent¹⁶, from 0.71 per cent¹⁶ in the equivalent period in 2021.

Hong Kong

	Actual exchange rate			Constant exchange rate	
	Half year 2022	Half year 2021	Change	Half year 2021	Change
APE sales (\$m)	227	253	(10)%	251	(10)%
New business profit (\$m)	211	306	(31)%	304	(31)%
New business margin (%)	93	121	(28)ppts	121	(28)ppts
Adjusted operating profit (\$m)	501	460	9%	457	10%
IFRS (loss)/profit after tax (\$m)	(613)	441	(239)%	430	(243)%

Overall APE sales declined by (10) per cent⁹ during the first half of 2022 impacted by the fifth wave of the pandemic. Throughout the first quarter of 2022 and into April 2022 Hong Kong's economic activity and businesses struggled.

The fifth wave had a significant impact on agency activity, resulting in a (23) per cent⁹ decline in APE sales. With the fifth wave gradually receding, we saw a rebound in agency activity. We continued to drive activity through needs-based selling and implementing capabilities to drive improvement in productivity. This has increased our health and protection mix through agency to over 40 per cent. Product mix enhancements improved the agency new business profit margin by 11 percentage points.

Bancassurance sales grew by 5 per cent⁹ over the period. We successfully launched a new multi-currency solution to diversify the portfolio to address the wealth accumulation and legacy planning needs of affluent customers. We have re-engineered the different facets of the customer and sales journey to increase insurance penetration and shift the mix to health and protection.

Customer retention in Hong Kong business remains solid at over 98 per cent.

New business profit declined (31) per cent⁹ driven by the impact of increases in interest rates on the risk discount rate applied under our EEV methodology, the reduction in sales volume and adverse channel mix. This impact is then partially offset by an improvement in product mix for both channels.

Indonesia

	Actual exchange rate			Constant exchange rate	
	Half year 2022	Half year 2021	Change	Half year 2021	Change
APE sales (\$m)	110	117	(6)%	116	(5)%
New business profit (\$m)	52	57	(9)%	56	(7)%
New business margin (%)	47	49	(2)ppts	48	(1)ppts
Adjusted operating profit (\$m)	196	225	(13)%	222	(12)%
IFRS profit after tax (\$m)	131	179	(27)%	172	(24)%

Overall APE sales fell by (5) per cent⁹ with sales activity in the period restricted due to a further wave of Covid-19-related restrictions, with recorded cases peaking in February¹⁷. These restrictions in particular affected agent sales activity with sales through this channel down (8) per cent⁹ on the prior period. Bancassurance sales remained flat in the period.

Indonesia's four-level Covid-19 public activity restriction system, with regional variations, remain in place. More moderate restrictions are in place throughout much of the country relative to the higher levels seen at the height of the pandemic. As an illustration Jakarta's restriction was reduced from level 3 at the start of March to level 1 in late May. As restrictions have eased, we have seen some recovery in sales, for example APE sales in June were 33 per cent⁹ higher than the previous month.

Prudential Syariah Life Assurance (PSLA) successfully obtained a business license and was legally separated from the conventional business on 1 April 2022. This marks our commitment to penetrate further the Syariah market, a segment where we continue to be the market leader¹⁸. Overall APE sales within our Syariah business fell by (8) per cent⁹ year-on-year, reflecting Covid-19 restrictions, with this business continuing to contribute over a quarter of the overall Indonesia APE sales.

The reduction in new business profit reflects the reduction in APE sales together with a small decrease in margin. New business profit margins reduced as a result of increases in interest rates, a lower agency mix and changes in taxation, with the government reversing its decision to lower the corporate tax rate from 22 per cent to 20 per cent from 2022 onwards.

Malaysia

	Actual exchange rate			Constant exchange rate	
	Half year 2022	Half year 2021	Change	Half year 2021	Change
APE sales (\$m)	172	211	(18)%	202	(15)%
New business profit (\$m)	70	113	(38)%	109	(36)%
New business margin (%)	41	54	(13)ppts	54	(13)ppts
Adjusted operating profit (\$m)	190	184	3%	175	9%
IFRS profit after tax (\$m)	119	135	(12)%	124	(4)%

APE sales decreased by (15) per cent⁹, with a (31) per cent⁹ decline in agency APE sales which was partially offset by 33 per cent⁹ growth in the bancassurance segment.

The decline in agency sales reflected repricing actions that benefited sales in the prior period (as previously highlighted) and have not recurred in the current period. We continue to support our agency channel through agent and customer campaigns following the end of the most significant Covid-19-related movement restrictions, and the business continues to increase its sales force quality and footprint, with recruitment of new agents in the first half of 2022 representing more than 10 per cent of 2021 closing agent numbers contributing to our total agency force of over 24,300.

Bancassurance sales grew strongly driven by client events and branch activities, as well as tailored virtual appointments. Sales through bank partnerships increased significantly as the business continued to increase sales of health and protection products, in addition to new investment-linked product offerings. Prudential continues to leverage its multi-channel distribution across its bank partners, with bancassurance sales contributing 37 per cent of total APE sales in the first half of 2022 compared with 24 per cent in the equivalent period in 2021.

APE sales for the Takaful business declined by (22) per cent⁹ reflecting the impact of repricing actions in the prior year that have not recurred. The Takaful business continues to invest in its agency force with agent numbers increasing by 15 per cent compared with 30 June 2021 and we have maintained our leading position in the segment⁴. The Takaful bancassurance channel has been supported by the launch of new products, such as the BSN Sakinah health and protection product, helping to increase the proportion of Takaful's new business sold that is classified as health and protection to 67 per cent (2021: 64 per cent).

The decline in new business profit reflects the decline in APE sales as described above, changes in product and channel mix and an adverse impact from higher interest rates and other economic changes.

Singapore

	Actual exchange rate			Constant exchange rate	
	Half year 2022	Half year 2021	Change	Half year 2021	Change
APE sales (\$m)	390	379	3%	370	5%
New business profit (\$m)	244	215	13%	210	16%
New business margin (%)	63	57	6ppts	57	6ppts
Adjusted operating profit (\$m)	340	320	6%	312	9%
IFRS profit after tax (\$m)	63	141	(55)%	135	(53)%

APE sales grew by 5 per cent⁹ year-on-year, supported by a 22 per cent⁹ growth in sales within our bancassurance channel. Agency sales contracted (11) per cent⁹ over the same period, with Covid-19-related social movement restrictions hampering agent activity in the first quarter of 2022. Covid-19-related restrictions eased from the end of March, leading to improved agency sales in the second quarter, although sales in this quarter were lower than the equivalent period in the prior year which benefited from elevated sales of participating business prior to a change in regulation.

The mix of single premium business has increased from 30 per cent to 44 per cent over the period. This reflects the growth in sales to the high net-worth customer segment, through the bancassurance channel, with a focus on savings and legacy planning products. The growth in this business segment is in line with the wider industry¹⁹, which has seen an increase in demand for such products. This business is of high quality and is generally long-term in nature.

Increased sales of investment-linked products led to a favourable shift in product mix contributing to a 16 per cent⁹ increase in new business profit, together with higher sales volumes and a shift in mix within participating business sales towards higher margin product offerings. The increase in new business profit was also supported by the effect of interest rate increases on participating business sales.

Growth Markets and Other

	Actual exchange rate			Constant exchange rate	
	Half year 2022	Half year 2021	Change	Half year 2021	Change
APE sales (\$m)	807	675	20%	650	24%
New business profit (\$m)	304	257	18%	249	22%
New business margin (%)	38	38	-	38	-
Adjusted operating profit (\$m)	522	479	9%	463	13%
IFRS profit after tax (\$m)	617	330	87%	305	102%

The businesses comprising our growth markets and other segment saw APE sales up 24 per cent⁹ compared with the first half of 2021 with Taiwan, India, Vietnam and Africa all delivering double-digit growth. New business profit was up 22 per cent⁹ broadly in line with the growth in sales.

In India, APE sales grew 11 per cent⁹ as the easing of restrictions arising from Covid-19 facilitated increased sales activity. New business profit increased by 29 per cent⁹ driven by favourable product mix changes, with a greater proportion of sales of higher margin group and non-participating business, compared with the prior period.

In Thailand, APE sales rose 9 per cent⁹ following the easing of Covid-19-related restrictions which had been in place in 2021, and which resulted in significant branch closures. APE sales growth also reflected the success of new investment products, such as TTB Senior Saver and TTB Value Saver products, launched in the second half of 2021. Group business sales have grown strongly over the first half of the year with the addition of staff plans. The success of these new products alongside a sizeable benefit from higher interest rates on profit margins drove a 72 per cent⁹ increase in new business profit.

In Vietnam, APE sales increased 19 per cent⁹ reflecting the easing of Covid-19-related restrictions and was driven by both agency and bancassurance channels, in particular through our SeABank partnership. New business profit was broadly flat with the increase in volumes offset by product mix and economic effects.

In the Philippines, where Prudential remains one of the largest players in the market²⁰, 2022 APE sales were up 5 per cent⁹. New business profit declined by (13) per cent⁹ mainly due to a substantial increase in interest rates.

In Taiwan, APE sales grew 55 per cent⁹ driven by strong momentum from a new, non-exclusive bank partner TSB, as well as a new participating product and campaigns undertaken by our existing bank partner TBB. New business profit rose strongly driven by the increase in sales and favourable product mix changes.

In Africa, APE sales have grown by 17 per cent⁹ year-on-year, supported by double-digit growth in six of our eight markets. APE sales growth was driven by a 32 per cent⁹ increase in Group sales and 8 per cent⁹ growth in agency sales.

Eastspring - funds under management

	Actual exchange rate			Constant exchange rate	
	Half year 2022	Half year 2021	Change	Half year 2021	Change
Total funds under management (\$bn)	222.3	254.0	(12)%	241.6	(8)%
Adjusted operating profit (\$m)	131	162	(19)%	155	(15)%
Fee margin based on operating income (bps)	28	30	(2)ppts	n/a	n/a
Cost/income ratio (%)	55	52	(3)ppts	n/a	n/a
IFRS profit after tax (\$m)	117	147	(20)%	142	(18)%

Adverse market, currency and other movements of \$(27.6) billion during the first half of 2022 were the main cause of the of (12) per cent⁷ decline in Eastspring's funds under management²¹. These effects were partially dampened by year-to-date net inflows of \$2.3 billion, underpinned by the stable and predictable flows from the life business of \$4.5 billion. The overall asset mix has remained stable and diversified across both clients and asset classes.

Overall net outflows from third parties of \$(1.8) billion (excluding money market funds and funds managed on behalf of M&G plc) are principally due to net withdrawals by retail clients from fixed income funds following rises in interest rates. The net outflows from retail bond funds were moderated by net inflows into retail equity funds, including strategies focused on China. Institutional flows were broadly flat. The redemption of funds managed on behalf of M&G plc, net of inflows, totalled \$(0.7) billion during the period, materially completing the anticipated equity fund transfers out of Eastspring previously highlighted.

Eastspring's fund performance reflected market volatility, with 44 per cent (31 December 2021: 46 per cent) of assets under management outperforming benchmarks over a weighted average of the past one and three years²².

Notes

- 1 Source: The Unprecedented Expansion of the Global Middle Class, Global Economy and Development program at the Brookings Institution, Feb 2017. Forecast growth of Asia Pacific middle class 2020 to 2030.
- 2 Source: Swiss Re Institute: The health protection gap in Asia, October 2018.
- 3 A life customer is defined as an individual or entity who holds one or more policy with a Prudential life 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.
- 4 Based on market share APE at Q1 2022 from the Life Insurance Association of Malaysia.
- 5 Source: Our World in Data, China confirmed Covid-19 cases.
- 6 New business profit, on a post-tax basis, on business sold in the period, calculated in accordance with EEV Principles.
- 7 On an actual exchange rate basis.
- 8 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 financial information for further explanation.
- 9 On a constant exchange rate basis.
- 10 '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 statements.
- 11 Operating free surplus generated from insurance and asset management operations before restructuring costs. For insurance operations, operating free surplus generated represents amounts emerging from the in-force business during the period 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 period. Restructuring costs are presented separately from the business unit amount. Further information is set out in 'movement in Group free surplus' of the EEV financial results.
- 12 Leads that originate from a digital platform, digital campaign or partner; and other leads, including leads from agents, recorded on digital leads management systems.
- 13 APE sales completed by agents on leads from digital campaigns captured within the digital customer management systems or on leads from Pulse registrations, together with a small number of policies purchased via Pulse online.
- 14 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.
- 15 Includes Wuxi, Ningbo and Qingdao which were upgraded from sub-branches to branches, approved by the CBIRC.
- 16 Based on life insurance sector gross written premiums data from the China Banking and Insurance Regulatory Commission.
- 17 Our World in Data Indonesia confirmed Covid-19 cases.
- 18 First Quarter Indonesia Syariah Market Share.
- 19 Source: The Life Insurance Association Singapore: Industry Performance, May 2022.
- 20 Based on unaudited first quarter statistics of new business weighted premiums.
- 21 Half year 2022 total funds under management, including external funds under management, money market funds, funds managed on behalf of M&G plc and internal funds under management.
- 22 A weighted average of the value of assets under management at 30 June 2022 in funds which outperform their performance benchmark on a 1 year basis (20 per cent weighting) and the value of assets under management at 30 June 2022 in funds which outperform their performance benchmark on a 3 year basis (80 per cent weighting), as a percentage of total assets under management at 30 June 2022, excluding assets in funds with no performance benchmark.
- 23 Excludes India.

Financial review

The first half of 2022 has seen the Group deliver a continued resilient performance despite the expected headwind of ongoing Covid-19-related disruption with APE sales¹, operating free surplus generation² and adjusted IFRS operating profit based on longer-term investment returns (adjusted operating profit³) all higher in the period, with the latter two measures dampened by our continued investment in the Group.

The first half of the year 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 (17) per cent, the Hang Seng index fell by (7) per cent and the CSI 300 index fell by (9) per cent while the S&P 500 index fell by (21) per cent. Government bond yields in many of our markets ended the period higher with the US 10-year yield increasing by 146 basis points to 3.0 per cent. This resulted in lower associated asset values and consequent impact on fee generating account balances which, together with the impact of higher discount rates under our active EEV methodology, contributed to a fall in our embedded value in the period. Increases in interest rates and decreases in equity market values also negatively impacted our IFRS profit for the period, as further discussed in the IFRS basis non-operating items section below.

The period 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.

Over the first half of 2022, the Group delivered a 9 per cent⁴ increase in APE sales as discussed earlier in the Strategic and operating review. Despite this, new business profit⁵ was (5) per cent⁴ lower in the period reflecting the combined impact on the Group's new business profit margin of a shift in geographical mix, notably a shift away from Hong Kong towards the business units within our Growth Markets segment (including Taiwan and Vietnam) and a higher proportion of bancassurance sales, which tends to have a higher mix of savings type products and hence lower margin. Under our active basis EEV methodology, higher government bond yields lead to both higher assumed fund earned rates but also higher risk discount rates which had an overall negative impact on EEV new business margins in many markets, particularly in Hong Kong. Excluding the effects of interest rate movements and other economic changes, new business profit was broadly flat⁴ when compared with the corresponding period in 2021.

Our Group EEV operating profit increased by 6 per cent⁴ driven by a higher expected return, reflecting the impact of continued in-force growth and higher period end interest rates, equating to an annualised operating return⁶ on embedded value of 8 per cent. The result includes adverse operating assumption changes and experience effects of \$(182) million, largely driven by our continued investment in the business to ensure we maintain existing, and build future, capacity to serve 50 million customers by 2025. Asset management post-tax profit was (18) per cent⁴ lower in the period, as a result of adverse market movements, explained further in the asset management section below. Central costs improved, reflecting lower interest costs. We remain on track to reduce annual head office expenses by a further \$70 million⁷ from 2023. Restructuring and IFRS 17 costs were higher in the period as a result of increased spend as the IFRS 17 project nears completion as well as actions undertaken to reduce head office costs. After allowing for economic effects, currency movements and the payment of the 2021 second interim dividend, the Group's embedded value was \$42.3 billion at 30 June 2022 (31 December 2021: 47.4 billion⁸), equivalent to 1,539 cents per share (31 December 2021: 1,725 cents per share⁸).

The Group generated adjusted operating profit of \$1,661 million, up 8 per cent⁴. Adjusted operating profit from the life and asset management business was up 6 per cent⁴ to \$2,029 million with the increase in life operating profit of 7 per cent⁴ being partly offset by a market-driven decline in Eastspring's profitability. The Group's total IFRS profit after tax from continuing operations was \$106 million (2021: profit of \$1,025 million on a constant exchange rate basis and \$1,070 million on an actual exchange rate basis) reflecting negative short-term market effects in many markets, with the fall in asset values from higher interest rates and lower equity markets exceeding the fall in policyholder liabilities. These negative effects were offset by the benefit from refinements to the reserving basis following adoption of the Hong Kong Risk-Based Capital regime (HK RBC) as discussed below.

In April, we received approval from the regulator to early adopt HK RBC, effective from 1 January 2022. The C-ROSS II requirements in the Chinese Mainland also became effective in the first quarter of 2022. The impacts of these changes improved the shareholder GWS capital surplus of total eligible group capital resources over the Group Minimum Capital Requirements (GMCR) at 1 January 2022 by \$9.3 billion⁹, increasing the coverage ratio¹⁰ from 408 per cent to 545 per cent (after allowing for the debt redemption in January 2022). Further details on the Group's capital position post this change are set out in the Group capital position later in this report. At 30 June 2022 the Group's shareholder surplus above the GMCR was \$19.4 billion⁹, representing a cover ratio of 548 per cent¹⁰. The Group aligns its established EEV and free surplus framework with the Group's Prescribed Capital Requirement (GPCR) as explained further in the capital management section below. At 30 June 2022, our shareholder surplus above the GPCR was \$16.2 billion¹¹ and cover ratio 317 per cent¹².

As well as the impact on capital, changes arising from HK RBC impact on our EEV and IFRS metrics which are underpinned by measurement techniques that are closely linked with regulatory reporting. 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 that arises where HK RBC technical provisions are lower than policyholder asset shares or cash surrender floors, to reflect more realistically the surplus which can be remitted. Total EEV increased by \$0.2 billion.

The IFRS reserving basis for Hong Kong has been refined at 30 June 2022 to reflect better the measurement techniques applied within HK RBC, leading to a reduction in policyholder liabilities (net of reinsurance) and an increase in profit before tax for the first half of 2022 of \$945 million. This has been allocated between operating and non-operating profit in line with the Group's usual principles.

IFRS profit

	Actual exchange rate			Constant exchange rate	
	Half year 2022	Half year 2021	Change %	Half year 2021	Change %
	\$m	\$m		\$m	
Adjusted operating profit based on longer-term investment returns before tax from continuing operations					
CPL	149	139	7	139	7
Hong Kong	501	460	9	457	10
Indonesia	196	225	(13)	222	(12)
Malaysia	190	184	3	175	9
Singapore	340	320	6	312	9
Growth markets and other	522	479	9	463	13
Long-term business adjusted operating profit	1,898	1,807	5	1,768	7
Eastspring	131	162	(19)	155	(15)
Total segment profit from continuing operations	2,029	1,969	3	1,923	6
Investment return and other income	39	-	n/a	-	n/a
Interest payable on core structural borrowings	(103)	(164)	37	(164)	37
Corporate expenditure	(150)	(157)	4	(151)	n/a
Other income (expenditure)	(214)	(321)	33	(315)	32
Total adjusted operating profit before tax and restructuring and IFRS 17 implementation costs	1,815	1,648	10	1,608	13
Restructuring and IFRS 17 implementation costs	(154)	(77)	(100)	(77)	(100)
Total adjusted operating profit before tax	1,661	1,571	6	1,531	8
Non-operating items:					
Short-term fluctuations in investment returns on shareholder-backed business	(1,383)	(212)	(552)	(234)	(491)
Amortisation of acquisition accounting adjustments	(5)	(2)	(150)	(2)	(150)
Profit (loss) attaching to corporate transactions	27	(94)	n/a	(94)	n/a
Profit before tax attributable to shareholders	300	1,263	(76)	1,201	(75)
Tax charge attributable to shareholders' returns	(194)	(193)	(1)	(176)	(10)
Profit from continuing operations for the period	106	1,070	(90)	1,025	(90)
Loss from discontinued US operations for the period, net of related tax	-	(5,707)	n/a	(5,707)	n/a
Profit (loss) for the period	106	(4,637)	n/a	(4,682)	n/a

IFRS earnings per share

	Actual exchange rate			Constant exchange rate	
	Half year 2022	Half year 2021	Change %	Half year 2021	Change %
	cents	cents		cents	
Basic earnings per share based on adjusted operating profit after tax from continuing operations	49.2¢	51.6¢	(5)	50.5¢	(3)
Basic earnings per share based on:					
Total profit after tax from continuing operations	3.8¢	40.9¢	(91)	39.2¢	(90)
Total loss after tax from discontinued operations	0.0¢	(195.1)¢	n/a	(195.1)¢	n/a

Segment profit from continuing long-term and asset management business increased by 6 per cent⁴ to \$2,029 million despite a challenging environment over recent periods, with all our major life segments, other than Indonesia, delivering growth, demonstrating the resilient and diversified nature of our business. The 7 per cent⁴ growth in the adjusted operating profit of our life business was partially offset by a decline in Eastspring adjusted operating profit, following adverse market movements on shareholder investments. After allowing for a 32 per cent⁴ reduction in central costs and higher restructuring and IFRS 17 implementation costs, total adjusted operating profit before tax increased to \$1,661 million, an 8 per cent⁴ increase compared with the prior period.

CPL, our joint venture business in the Chinese Mainland, delivered a 7 per cent⁴ increase in adjusted operating profit compared with the same period in 2021, reflecting growth in the underlying portfolio, evident from a 22 per cent⁴ increase in gross premiums earned¹³ in the period.

In Hong Kong, our adjusted operating profit increased 10 per cent⁴ to \$501 million benefitting from growth in shareholder-backed renewal premiums of 2 per cent⁴, higher levels of profits from our with-profits business given the ageing of certain cohorts and the impact on 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 (12) per cent⁴, reflecting lower sales volumes in recent years and higher claims levels as medical claims began to normalise to pre-pandemic levels.

In Malaysia, adjusted operating profit growth of 9 per cent⁴ was supported by the growth of our in-force health and protection business, with shareholder-backed renewal premiums increasing by 7 per cent⁴, and an increase in spread profits given higher interest rates.

In Singapore, adjusted operating profit increased 9 per cent⁴, reflecting the continued growth of our in-force business evidenced by 9 per cent⁴ growth in shareholder-backed renewal premiums alongside higher profits from our with-profits business following its growth over recent years.

The businesses comprising our growth markets and other segment generated adjusted operating profit growth of 13 per cent⁴, driven by Thailand and India. Thailand achieved double-digit growth in adjusted operating profit following increases in new business in recent years as we upscaled the business through our bank partnerships with TTB and UOB. India saw improved claims experience in the period, given the spike in Covid-19 cases seen in 2021¹⁴.

Adjusted operating profit for growth markets and other includes other items of \$160 million (2021: \$167 million on an actual exchange rate basis and \$161 million on a constant exchange rate basis) which in the first half of 2022 comprised largely the impact of the adoption of Risk-Based Capital regime in Hong Kong (as discussed further in note C3.2 of the IFRS financial results) offset by corporate taxes for life joint ventures and associates and provisions for sales and premium tax.

Long-term insurance business adjusted operating profit drivers

Profit margin analysis of long-term insurance continuing operations¹⁵

	Actual exchange rate				Constant exchange rate	
	Half year 2022		Half year 2021		Half year 2021	
	\$m	Margin bps	\$m	Margin bps	\$m	Margin bps
Spread income	156	73	153	67	150	67
Fee income	172	103	169	103	164	102
With-profits	75	18	62	15	61	15
Insurance margin	1,683		1,467		1,434	
Other income	1,649		1,533		1,495	
Total life insurance income	3,735		3,384		3,304	
Expenses:						
Acquisition costs	(1,129)	(51)%	(990)	(48)%	(968)	(48)%
Administration expenses	(899)	(235)	(804)	(203)	(780)	(201)
DAC adjustments	223		238		233	
Share of related tax charges from joint ventures and associates	(32)		(21)		(21)	
Long-term insurance business pre-tax adjusted operating profit	1,898		1,807		1,768	

Our adjusted operating profit continues to be based on high-quality drivers including our ongoing focus on recurring premium health and protection products and the associated continued growth of our in-force business. The overall 7 per cent⁴ growth in life insurance adjusted operating profit to \$1,898 million (half year 2021: \$1,768 million⁴) was driven principally by 17 per cent⁴ growth in insurance margin-related revenues following the early-adoption of HK RBC and lower claim costs in India, as well as business growth. At the same time there continues to be a normalisation of medical claims towards pre-pandemic levels following the lower incidence seen in 2021 and 2020.

Fee income increased by 5 per cent⁴, reflecting premium contributions partly offset by unfavourable market movements, while spread income increased by 4 per cent⁴ reflecting in-force business growth, with an improvement in margin primarily due to rising interest rates.

With-profits earnings relate to the shareholders' share in bonuses declared to policyholders. As these bonuses are typically weighted to the end of a contract, under IFRS, with-profit earnings consequently emerge only gradually over time. The 23 per cent⁴ growth in with-profits earnings reflects the ongoing growth and ageing 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 half year 2021 reflects premium growth in the period for our shareholder backed business. Acquisition costs increased in the year, driven by higher APE sales as compared with the prior period. Administration expenses increased by 15 per cent⁴ reflecting in-force business growth and sales and premium tax related provisions. Both acquisition costs and administration expenses were also impacted by our investment to maintain our capabilities and develop the capacity to serve 50 million customers by 2025.

Asset management

	Actual exchange rate		Change %
	Half year 2022 \$m	Half year 2021 \$m	
Total external net flows * ¹⁶	(1,786)	(509)	n/a
External funds under management* (\$bn)	81.5	96.1	(15)
Funds managed on behalf of M&G plc (\$bn)	9.3	16.1	(42)
Internal funds under management (\$bn)	131.5	141.8	(7)
Total funds under management (\$bn)	222.3	254.0	(12)
Analysis of adjusted operating profit			
Retail operating income	196	225	(13)
Institutional operating income	136	149	(9)
Operating income before performance-related fees	332	374	(11)
Performance-related fees	4	6	(33)
Operating income (net of commission)	336	380	(12)
Operating expense	(184)	(196)	6
Group's share of tax on joint ventures' adjusted operating profit	(21)	(22)	5
Adjusted operating profit	131	162	(19)
Adjusted operating profit after tax	117	147	(20)
Average funds managed by Eastspring			
Fee margin based on operating income	28bps	30bps	(2)bps
Cost/income ratio ¹⁷	55%	52%	(3)ppts

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

Eastspring's total funds under management¹⁸ were \$222.3 billion at 30 June 2022 (30 June 2021: \$254.0 billion⁸), reflecting adverse currency and market movements. Eastspring's average funds under management for the period 1 January 2022 to 30 June 2022 were \$241.8 billion (2021: \$247.6 billion on an actual exchange rate basis).

Eastspring saw total net inflows of \$2.3 billion over the first half of 2022 (2021: \$3.6 billion⁸) which included internal net inflows from our life businesses of \$4.5 billion (2021: \$4.5 billion⁸) partially offset by third-party outflows (excluding money market funds) of \$(1.8) billion, primarily from retail business, and \$(0.7) billion of net outflows for funds managed on behalf of M&G plc.

Eastspring's adjusted operating profit of \$131 million was down (19) per cent compared with the prior period on an actual exchange rate basis (down (15) per cent on a constant exchange rate basis). Operating income before performance related fees was (11) per cent lower⁸, driven largely by a net realised and unrealised loss (as compared with a net gain in the prior year) on shareholder investments, including its seed capital in its retail funds. Before these movements on shareholder investments and performance fees, operating income was (4) per cent⁸ lower compared with a decline of (2) per cent⁸ in average funds under management over the same period. The cost/income ratio increased to 55 per cent (2021: 52 per cent) despite a 6 per cent⁸ reduction in operating costs, due to the effect of mark-to-market movements on shareholder investments in each period discussed above.

Other income and expenditure

Central costs were 32 per cent⁴ lower than the prior period reflecting the benefit of the debt reduction programme completed in January 2022, with a fall in interest payable on core structural borrowings of \$61 million compared with the prior period. We remain on track to deliver the benefit of our activities to right-size head office costs with annual head office costs targeted to reduce by around \$70 million⁷ from 2023. The Group received gross dividend income from its residual interest in Jackson Financial Inc. of \$16 million in the first half of 2022 (2021: nil) and also benefitted from unrealised gains upon retranslation of its sterling debt, as the dollar strengthened.

Restructuring costs of \$(154) million (2021: \$(77) million⁸) reflect both the Group's substantial and ongoing IFRS 17 project with costs increasing, as planned, as implementation approaches in 2023, and actions taken in the period to right-size our head office footprint.

IFRS basis non-operating items

Non-operating items from continuing operations in the year consist mainly of short-term fluctuations in investment returns on shareholder-backed business of negative \$(1,383) million, (2021: negative \$(234) million⁴), and a gain of \$27 million from corporate transactions (2021: loss of \$(94) million⁴).

The increase in the level of short-term fluctuations reflects the fall in equity markets in the first half of the year, compared with equity market gains in the prior period, along with interest rates increasing significantly more in the current period than in the first half of 2021. Decreases in bond values from rising interest rate losses 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 and because some regimes have policyholder liabilities that do not directly reflect changes in interest rates or reprice more slowly than assets.

Gains from corporate transactions of \$27 million includes profit of \$60 million on the sale of 4.2 million shares in Jackson Financial Inc. during the first half of 2022 at an average price of \$40.79 per share. Our investment in Jackson Financial Inc. is held at fair value in the balance sheet, with movements in fair value recognised initially in other comprehensive income, and recycled to the income statement on sale. At 30 June 2022, we held 14.3 per cent of the shares in Jackson Financial Inc. which had a fair value of \$325 million. We have undertaken further sales of Jackson Financial Inc. and as at 5 August 2022 our remaining holding has a fair value of \$215 million. In total, proceeds of \$376 million have been received from reducing our holding in Jackson Financial Inc. from 19.7 per cent at the time of the demerger in 2021 to approximately 9.0 per cent at 5 August 2022, in addition to the quarterly dividends received on our holdings. Further information on corporate transactions is presented in note D1.1 to the IFRS financial results.

IFRS effective tax rates for continuing operations

In the first half of 2022, the effective tax rate on adjusted operating profit was 19 per cent (2021: 14 per cent). The increase from the 2021 effective tax rate reflects the first half of 2021 having benefited from the resolution of some historic issues at lower amounts than had been provided for.

The effective tax rate on total IFRS profit in the first half of 2022 was 65 per cent (2021: 17 per cent), reflecting the mathematical combination of a normal tax charge on operating profit and a much lower tax credit on non-operating losses, most of which are not tax deductible.

The effective tax rate on adjusted operating profit is likely to be impacted by a combination of the 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. Current indications are that these proposed new rules will most likely take effect in 2024. The OECD rules and associated guidance are complex and require detailed analysis and consideration which is ongoing. In addition, a further OECD document (the GloBE Implementation Framework) together with relevant domestic tax legislation are required in order to complete the analysis. We expect to be in a position to give an indicative impact to the effective tax rate in the full year 2022 results.

Shareholders' equity

Group IFRS shareholders' equity

	Half year 2022 \$m	Half year 2021 \$m	Full year 2021 \$m
Adjusted operating profit after tax attributable to shareholders from continuing operations	1,343	1,342	2,668
Profit from continuing operations for the period	106	1,070	2,214
Less non-controlling interest from continuing operations	(2)	(7)	(22)
Profit after tax for the period attributable to shareholders from continuing operations	104	1,063	2,192
Net decrease in shareholders' equity from discontinued operations (see note D1.2 in the IFRS financial statements)	-	(5,844)	(6,283)
Demerger dividend in-specie of Jackson	-	-	(1,735)
Exchange movements, net of related tax	(513)	(158)	(165)
Other external dividends	(320)	(283)	(421)
Issue of equity shares	-	-	2,382
Other (including revaluation and sale of Jackson residual interest since demerger)	(250)	57	240
Net decrease in shareholders' equity	(979)	(5,165)	(3,790)
Shareholders' equity at beginning of the period	17,088	20,878	20,878
Shareholders' equity at end of the period	16,109	15,713	17,088
Shareholders' value per share¹⁷	586¢	601¢	622¢

Group IFRS shareholders' equity decreased from \$17.1 billion⁸ at the start of 2022 to \$16.1 billion at 30 June 2022 reflecting dividend payments of \$(0.3) billion, adverse exchange movements of \$(0.5) billion and movements from the revaluation and sale of shares in Jackson Financial Inc. of \$(0.3) billion offset by profits generated in the period.

Greater China presence

Prudential has a significant footprint in the Greater China region, with businesses in the Chinese Mainland (through its holding CPL), Hong Kong and Taiwan. The Group is dual-headquartered in London and Hong Kong and its regulator is the Hong Kong Insurance Authority. From February 2023 the Group Chief Executive Officer, Chief Financial Officer and Chief Risk and Compliance Officer will all be based in Hong Kong.

The table below demonstrates the significant proportion of the Group's financial measures that were contributed by our Hong Kong, CPL and Taiwan businesses.

	Gross premiums earned**			New business profit		
	Half year		Full year	Half year		Full year
	2022 \$m	2021 \$m	2021 \$m	2022 \$m	2021 \$m	2021 \$m
Total Greater China*	6,983	6,677	14,335	503	575	1,181
Total Group* (continuing operations)	14,609	13,587	28,796	1,098	1,176	2,526
Percentage of total	48%	49%	50%	46%	49%	47%

* Total Greater China represents the amount contributed by the life 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 life associates and JVs.

** The gross earned premium amount shown above differs from that shown in the income statement as it 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 financial information.

EEV financial results

EEV financial results from continuing operations

	Actual exchange rate			Constant exchange rate	
	Half year 2022	Half year 2021	Change %	Half year 2021	
	\$m	\$m		\$m	Change %
New business profit	1,098	1,176	(7)	1,155	(5)
Profit from in-force business	1,001	857	17	838	19
Operating profit from long-term business	2,099	2,033	3	1,993	5
Asset management	117	147	(20)	142	(18)
Other income and expenditure ¹⁹	(410)	(431)	5	(425)	4
Operating profit for the period from continuing operations	1,806	1,749	3	1,710	6
Non-operating (loss) profit	(5,314)	158	(3,463)	178	(3,085)
(Loss) profit for the period from continuing operations	(3,508)	1,907	(284)	1,888	(286)
Dividends paid	(320)	(283)			
Other movements	(1,456)	(388)			
Net (decrease) increase in EEV shareholders' equity from continuing operations	(5,284)	1,236			
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 30 Jun	42,300	43,162			
% Annualised new business profit/average EEV shareholders' equity for insurance and asset management business operations*	5%	5%			
% Annualised operating profit/average EEV shareholders' equity for continuing operations	8%	8%			

* Excluding goodwill attributable to equity holders

EEV shareholders' equity	30 Jun 2022	Actual exchange rate
	\$m	31 Dec 2021 \$m
Represented by:		
CPL (Prudential's share)	3,302	3,114
Hong Kong	17,246	21,460
Indonesia	1,956	2,237
Malaysia	3,524	3,841
Singapore	6,712	7,732
Growth markets and other	6,225	6,262
Embedded value from long-term business excluding goodwill	38,965	44,646
Asset management and other excluding goodwill	2,586	1,931
Goodwill attributable to equity holders	749	778
Group EEV shareholders' equity	42,300	47,355
Group EEV shareholders' equity per share	1,539¢	1,725¢

EEV operating profit from continuing operations increased by 6 per cent⁴ to \$1,806 million (2021: \$1,710 million⁴) with the favourable effect of economics on in-force long-term business partially offset by a decline in the contribution from new business profit.

New business performance

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

	Actual exchange rate						Constant exchange rate			
	Half year 2022 \$m		Half year 2021 \$m		Change %		Half year 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 (Prudential's share)	507	217	448	228	13	(5)	447	227	13	(4)
Hong Kong	227	211	253	306	(10)	(31)	251	304	(10)	(31)
Indonesia	110	52	117	57	(6)	(9)	116	56	(5)	(7)
Malaysia	172	70	211	113	(18)	(38)	202	109	(15)	(36)
Singapore	390	244	379	215	3	13	370	210	5	16
Growth markets and other	807	304	675	257	20	18	650	249	24	22
Total	2,213	1,098	2,083	1,176	6	(7)	2,036	1,155	9	(5)
Total new business margin		50%		56%				57%		

APE sales increased by 9 per cent⁴ to \$2,213 million and related new business profit decreased by (5) per cent⁴. Detailed discussion of new business performance by segment is presented in the Strategic and operating review.

EEV in-force profit

The profit from in-force long-term business is driven by the expected return and effects of operating assumption changes, if any, and operating experience variances. The expected return increased by 36 per cent⁴ above the prior year reflecting the combined effects of underlying business growth and the impact of higher interest rates increasing the risk discount rate under our active basis EEV methodology. Operating assumption changes and experience variances were negative \$(182) million on a net basis driven largely by the decision to continue to invest in the business to ensure as we maintain existing and build future capacity to serve 50 million customers in 2025 as well as including additional provisions for sales and premium taxes in the period.

The non-operating loss of \$(5,314) million (2021: \$178 million⁴ profit) is driven largely by falling equity markets and rising interest rates over the period 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 30 June 2022 to \$42.3 billion (31 December 2021: \$47.4 billion⁸). Of this, \$39.0 billion (31 December 2021: \$44.6 billion⁸) relates to the value of 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 30 June 2022 was circa \$8.9 billion, which compares with a last publicly reported embedded value of circa \$4.2 billion at 31 March 2022.

As well as the long-term business amounts (which includes relevant intangibles), EEV includes the IFRS basis net asset value of the asset management businesses, central holding companies and the goodwill attributable to shareholders. Included within these amounts at 30 June 2022 is \$325 million for our 14.3 per cent economic interest in Jackson, which is measured at fair value. EEV shareholders' equity on a per share basis at 30 June 2022 was 1,539 cents (31 December 2021: 1,725 cents⁸).

Group free surplus generation from continuing operations

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 period, net of amounts reinvested in writing new business. For asset management businesses, it equates to post-tax adjusted operating profit for the period.

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 used in our GWS reporting as set out in our EEV statements note 7.1(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 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 the first half of 2022) are treated as capital for the purposes of free surplus at 30 June 2022.

Analysis of movement in Group free surplus²

	Actual exchange rate			Constant exchange rate	
	Half year 2022	Half year 2021	Change %	Half year 2021	Change %
	\$m	\$m		\$m	
Expected transfer from in-force business and return on existing free surplus	1,446	1,249	16	1,224	18
Changes in operating assumptions and experience variances	(60)	35	(271)	35	(271)
Operating free surplus generated from in-force life business before restructuring costs	1,386	1,284	8	1,259	10
Investment in new business	(279)	(319)	13	(312)	11
Asset management	117	147	(20)	142	(18)
Operating free surplus generated from life business and asset management before restructuring costs	1,224	1,112	10	1,089	12
Central costs and eliminations (net of tax):					
Net interest paid on core structural borrowings	(103)	(164)	37	(164)	37
Corporate expenditure	(150)	(149)	(1)	(143)	(5)
Other items and eliminations	(10)	(46)	78	(46)	78
Restructuring and IFRS 17 implementation costs (net of tax)	(146)	(70)	(109)	(70)	(109)
Net Group operating free surplus generated for continuing operations	815	683	19	666	22
Non-operating and other movements, including foreign exchange	(1,805)	109			
External cash dividends	(320)	(283)			
Treatment of grandfathered debt instruments under the GWS Framework ²⁰	-	1,995			
(Decrease) increase in Group free surplus from continuing operations before net subordinated debt redemption	(1,310)	2,504			
Net subordinated debt redemption	(1,699)	-			
(Decrease) increase in Group free surplus from continuing operations	(3,009)	2,504			
Change in amounts attributable to non-controlling interests	(5)	(13)			
Free surplus at 1 Jan from continuing operations	14,049	8,344			
Effect of HK RBC	1,360	-			
Free surplus at 30 Jun from continuing operations	12,395	10,835			
Free surplus at 30 Jun excluding distribution rights and other intangibles	8,589	6,920			

The in-force business generated \$1,386 million of free surplus in the first half of 2022, an increase of 10 per cent⁴ from prior period with growth reflecting the increasing size of our inforce book and the positive effect of interest rates, curtailed by adverse operating experience reflecting our decision to continue to invest in the business to ensure we maintain and build future capacity to serve 50 million customers in 2025. Despite the overall increase in APE sales, up 9 per cent⁴ as discussed previously, the cost of investment in this new business reduced by 11 per cent⁴ reflecting favourable economics, and the impact of regulatory changes in Hong Kong, partially offset by product mix changes. After allowing for an (18) per cent⁴ decrease in asset management earnings on an after tax basis (discussed in the commentary on IFRS above), operating free surplus generated from our life and asset management business increased by 12 per cent⁴ to \$1,224 million.

Combining operating free surplus generated by the life and asset management business with a reduction in central costs of 25 per cent⁴ offset by higher restructuring and IFRS 17 implementation costs, total Group operating free surplus generation was 22 per cent⁴ higher at \$815 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 2021 second interim dividend payment and the \$1.4 billion benefit from adopting HK RBC at 1 January 2022, free surplus at 30 June 2022 was \$12.4 billion. Excluding distribution rights and other intangibles it was \$8.6 billion.

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 applies a formulaic approach to first interim dividends, calculated as one-third of the previous year's full-year ordinary dividend. Accordingly, the Board has approved a 2022 first interim ordinary cash dividend of 5.74 cents per share (2021 first interim dividend: 5.37 cents per share).

Group capital position

Prudential applies the Insurance (Group Capital) Rules set out in the GWS Framework issued by the Hong Kong IA to determine group regulatory capital requirements (both minimum and prescribed levels). More information is set out in note 1(i) of the Additional financial information. The GWS group capital adequacy requirements require that total eligible group capital resources are not less than the Group Prescribed Capital Requirements (GPCR) and that GWS Tier 1 group capital resources are not less than the Group Minimum Capital Requirements (GMCR). Following the trend to move to risk-based capital regimes (discussed further below), from this reporting period onwards, the headline Group solvency position will be presented by comparing the total eligible group capital resources to the GPCR, rather than to the GMCR, which is more comparable to other global risk-based measures. The Hong Kong

IA is currently consulting on whether such disclosures should become a requirement for all groups under its supervision. The GPCR also remains the basis of our EEV capital requirements.

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.

Regulatory updates

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.

These changes are estimated to have increased the GWS shareholder surplus over the GMCR by \$9.3 billion⁹ and to have increased the corresponding coverage ratio from 408 per cent to 545 per cent¹⁰ as at 31 December 2021, after allowing for the \$1.7 billion debt redemption in January 2022.

Going forwards, the GWS capital position will be primarily shown relative to the GPCR rather than the GMCR. On this basis, and allowing for the regulatory changes above, as at 31 December 2021 the GWS shareholder capital surplus over the GPCR is estimated to have been \$17.5 billion¹¹ with a corresponding GWS coverage ratio of 320 per cent¹². When including the contribution from ring-fenced policyholder funds, the total surplus over the GPCR is estimated to have been \$21.4 billion¹¹, with a corresponding GWS coverage ratio of 204 per cent¹². These impacts are shown below:

	Shareholder GMCR basis			GPCR basis (post regulatory updates)		
	As disclosed	Impact of Hong Kong RBC and C-ROSS II	Post regulatory updates	Shareholder	Policyholder	Total
31 December 2021²¹						
Group capital resources (\$bn)	15.2	+10.3	25.5	25.5	16.5	42.0
Required capital (\$bn)	3.7	+1.0	4.7	8.0	12.6	20.6
GWS capital surplus over GMCR/GPCR (\$bn)	11.5	+9.3	20.8	17.5	3.9	21.4
GWS coverage ratio over GMCR/GPCR (%)	408%	+137%	545%	320%		204%

Estimated GWS capital position

As at 30 June 2022, the estimated shareholder GWS capital surplus over the GPCR is \$16.2 billion¹¹ (31 December 2021: \$17.5 billion²¹), representing a coverage ratio of 317 per cent¹² (31 December 2021: 320 per cent²¹) and the total GWS capital surplus over the GPCR is \$19.1 billion¹¹ (31 December 2021: \$21.4 billion²¹) representing a coverage ratio of 205 per cent¹² (31 December 2021: 204 per cent²¹).

For comparison to previous periods, as at 30 June 2022, the estimated shareholder GWS capital surplus over the GMCR was \$19.4 billion⁹ representing a coverage ratio of 548 per cent¹⁰ (31 December 2021: \$20.8 billion representing a coverage ratio of 545 per cent²¹).

The Group shareholder GWS capital surplus over the GPCR reduced by \$(1.3) billion since 31 December 2021 to \$16.2 billion at 30 June 2022. Operating capital generation in the period was \$0.8 billion after allowing for central costs and investment in new business. The impact of non-operating experiences, including market movements, were negative overall and reduced surplus by \$(1.8) billion. Dividends of \$0.3 billion were paid to shareholders in respect of the 2021 second interim dividend.

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

	30 Jun 2022 (post regulatory updates)			31 Dec 2021 ²¹ (post regulatory updates)		
	Shareholder	Policyholder*	Total	Shareholder	Policyholder*	Total
Group capital resources (\$bn)	23.7	13.6	37.3	25.5	16.5	42.0
of which: Tier 1 capital resources ²² (\$bn)	16.3	2.1	18.4	17.9	3.5	21.4
Group Minimum Capital Requirement (\$bn)	4.3	1.3	5.6	4.7	1.8	6.5
Group Prescribed Capital Requirement (\$bn)	7.5	10.7	18.2	8.0	12.6	20.6
GWS capital surplus over GPCR (\$bn)	16.2	2.9	19.1	17.5	3.9	21.4
GWS coverage ratio over GPCR (%)	317%		205%	320%		204%
GWS Tier 1 surplus over GMCR (\$bn)			12.8			14.9

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

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 30 June 2022 the Group's free surplus (excluding distribution rights and other intangibles) was \$8.6 billion, compared with the GWS shareholder surplus of \$16.2 billion and a reconciliation is shown in note I(i) of the Additional 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.

Financing and liquidity

At 30 June 2022, the Group's net gearing ratio as defined in the table below was 12 per cent (31 December 2021: 13 per cent). 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 30 June 2022 to be 22 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

	30 Jun 2022 \$m			30 Jun 2021 \$m			31 Dec 2021 \$m		
	IFRS basis	Mark-to-market value	EEV basis	IFRS basis	Mark-to-market value	EEV basis	IFRS basis	Mark-to-market value	EEV basis
Borrowings of shareholder-financed businesses	4,266	(193)	4,073	6,404	625	7,029	6,127	438	6,565
Less: holding company cash and short-term investments	(2,143)	-	(2,143)	(1,393)	-	(1,393)	(3,572)	-	(3,572)
Net core structural borrowings of shareholder-financed businesses	2,123	(193)	1,930	5,011	625	5,636	2,555	438	2,993
Net gearing ratio*	12%			28%			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 financial information.

The total borrowings of the shareholder-financed businesses from continuing operations were \$4.3 billion at 30 June 2022 (31 December 2021: \$6.1 billion⁸). The Group had central cash resources of \$2.1 billion at 30 June 2022 (31 December 2021: \$3.6 billion⁸), resulting in net core structural borrowings of the shareholder-financed businesses of \$2.1 billion at end of June 2022 (31 December 2021: \$2.6 billion for continuing operations⁸). We have not breached any of the requirements of our core structural borrowings nor modified any of their terms during the first half of 2022.

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 \$544 million in issue at 30 June 2022 (31 December 2021: \$500 million⁸).

As at 30 June 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 30 June 2022.

Cash remittances

Holding company cash flow

	Actual exchange rate		Change %
	Half year 2022 \$m	Half year 2021 \$m	
Net cash remitted by businesses²³	1,009	1,035	(3)
Net interest paid	(117)	(163)	28
Corporate expenditure (including IFRS 17 implementation and restructuring costs)	(124)	(216)	43
Centrally funded recurring bancassurance fees	(220)	(176)	(25)
Total central outflows	(461)	(555)	17
Holding company cash flow before dividends and other movements	548	480	
Dividends paid	(320)	(283)	
Operating holding company cash flow after dividends but before other movements	228	197	
Issuance and redemption of debt	(1,729)	-	
Other corporate activities	159	(256)	
US demerger costs	-	(28)	
Total other movements	(1,570)	(284)	
Net movement in holding company cash flow	(1,342)	(87)	
Cash and short-term investments at the beginning of the year	3,572	1,463	
Foreign exchange and other movements	(87)	17	
Cash and short-term investments at the end of the year	2,143	1,393	

Remittances from our businesses were \$1,009 million (2021: \$1,035 million⁸). The value of cash received in the period reflects the timing of remittances from individual businesses and is not expected to recur at the same level in the second half of the year. Remittances were used to meet central outflows of \$(461) million (2021: \$(555) million⁸) and to pay dividends of \$(320) million. Central outflows include corporate expenditure of \$(124) million (2021: \$(216) million⁸), centrally funded recurring bancassurance fees of \$(220) million (2021: \$(176) million⁸), and net interest paid of \$(117) million (2021: \$(163) million⁸).

Other cash flow movements included net receipts from other corporate activities of \$159 million (2021: \$(256) million⁸ net payments) comprising proceeds of \$171 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. Further information is contained in note I(v) of the Additional financial information. 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 period funded by the issue of new senior debt at a net outflow of \$4 million.

Cash and short-term investments totalled \$2.1 billion at 30 June 2022 (31 December 2021: \$3.6 billion⁸).

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

- 1 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 financial information for further explanation.
- 2 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 financial results.
- 3 '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.
- 4 On a constant exchange rate basis.
- 5 New business profit, on a post-tax basis, on business sold in the period, calculated in accordance with EEV Principles.
- 6 Operating return calculated as annualised operating profit (calculated by multiplying half year profits by two) divided by the average EEV shareholders' equity for continuing operations. See note II(x) of the Additional financial information for definition and calculation.
- 7 Annual saving from full year 2021 costs, based on full year 2021 exchange rates.
- 8 On an actual exchange rate basis.
- 9 GWS capital resources in excess of the Group minimum capital requirement attributable to the shareholder business, before allowing for the 2022 first cash interim dividend. The shareholder position excludes the contribution to Group eligible capital resources and the Group minimum capital requirement from participating business in Hong Kong, Singapore and Malaysia. Under the GWS Framework, all debt instruments (senior and subordinated) issued by Prudential plc at 30 June 2022, except the \$350 million senior debt issued in the first half of 2022, are included as GWS eligible group capital resources.
- 10 GWS coverage ratio of capital resources over Group minimum capital requirement attributable to shareholder business.
- 11 GWS capital resources in excess of the Group prescribed capital requirement attributable to the shareholder business, before allowing for the 2022 first cash interim dividend. The shareholder position excludes the contribution to Group eligible capital resources and the Group prescribed capital requirement from participating business in Hong Kong, Singapore and Malaysia. 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 GWS group capital adequacy requirements require that total eligible Group capital resources are not less than the Group Prescribed Capital Requirements (GPCR) and that GWS Tier 1 group capital resources are not less than the Group Minimum Capital Requirements (GMCR).
- 12 GWS coverage ratio of capital resources over Group prescribed capital requirement attributable to the shareholder business. 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 GWS group capital adequacy requirements require that total eligible Group capital resources are not less than the Group Prescribed Capital Requirements (GPCR) and that GWS Tier 1 group capital resources are not less than the Group Minimum Capital Requirements (GMCR).
- 13 Calculated in accordance with the Group's IFRS accounting policies, which includes the full premium for insurance contracts classified under IFRS 4.
- 14 Our World in Data, India confirmed Covid-19 cases.
- 15 For discussion on the basis of preparation of the sources of earnings in the table see note I(ii) of the Additional financial information.
- 16 Excludes Money Market Funds.
- 17 See note II of the Additional financial information for definition and reconciliation to IFRS balances.
- 18 Half year 2022 total funds under management, including external funds under management, money market funds, funds managed on behalf of M&G plc and internal funds under management.
- 19 Other income and expenditure includes restructuring and IFRS 17 implementation costs.
- 20 Debt not denominated in USD is translated using exchange rates as at 31 December 2020 for the purposes of grandfathering.

- 21 31 December 2021 comparative amounts include the effect of the adoption of HK RBC and the redemption of \$1,725 million of sub-ordinated debt completed in January 2022.
- 22 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.
- 23 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 financial information. This comprises dividends and other transfers from businesses that are reflective of earnings and capital generation.

Risk review

Enabling decisions to be taken with confidence

Prudential's Group Risk Framework and risk appetite have allowed the business to control its risk exposure throughout the first half of 2022. Its governance, processes and controls enable the Group to deal with uncertainty effectively, which is critical to the achievement of its strategy of capturing long-term structural opportunities and helping customers achieve their long-term financial goals. 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 the Group into an Asia and Africa-focused business, the Group is transforming its leadership structure and strategic and operating models as it continues its focus on its customers and adapting its multi-channel distribution model to changed 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 change activities, while overseeing the risks and implications to the ongoing business in order to ensure the Group remains within risk appetite, especially during the first half of 2022, where we have seen an increase in the complexity of the macro-economic, geopolitical and regulatory environments. During the first half of 2022, the Group achieved notable milestones with the delivery of transitional arrangements to significantly progress the implementation of the GWS Framework and implementation of the C-ROSS II, with agreed transitional arrangements, and RBC capital standards at CPL, its Chinese Mainland joint venture, and Hong Kong businesses respectively.

Over the past months, the confluence of a number of factors have impacted the world. The global community may be entering an era that many of its inhabitants will not have experienced before, a potentially prolonged period characterised by high inflation, high interest rates and economic uncertainties, set against reconfigured national alliances and competition between blocs where resource, energy and fiscal security become central to government policies. The impacts to the Group are many-fold and may be pronounced. These include increased strategic and business risks, as well as increasing insurance, product and customer conduct risks. For its customers, this period may increase uncertainty over livelihoods, elevating costs of living and 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 market environment in its markets in order 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 changed backdrop, the Group continues to effectively leverage its risk management and compliance experience in more mature markets, applying it to its growth markets appropriate to their respective risks and the extent of their uncertainties in this changed world, and reflective of opportunities, customer issues and needs and local customs. With the appointment of the new Group Chief Risk and Compliance Officer (CRCO), supported by a wider leadership team across the businesses, Prudential will continue to apply the holistic and coordinated approach in managing the increasingly dynamic, multi-faceted and often inter-connected risks facing its businesses.

Societal developments

The global economic uncertainties and the rise in inflation are increasingly putting pressure on household affordability for things such as energy, materials, food and services. These pressures may exacerbate existing structural inequalities within societies. Government and supervisory attention is being increasingly focussed on the cost of living crisis taking shape across many of the Group's markets. These developments have implications for Prudential on 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 momentum in expectation from governments on private companies to help with affordability issues and to extend the regulatory definitions of 'vulnerable' customers to explicitly include those in need due to the current economic pressures. It is notable that, in managing the impact of recent sector-specific regulatory tightening in the Chinese Mainland, the priority of government and industry regulators has been the protection of end consumers, rather than of companies or investors. 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 and increase 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 Pulse platform, help to expand the financial inclusion of Prudential's products and improve customer outcomes as part of the conduct of the Group's businesses in its markets.

Most markets have moved (or are moving), at different 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 those associated with ensuring a 'just and inclusive' transition to a lower carbon global economy, and their potential impact on its wide range of stakeholders, and how its products and services meet the needs of affected societies. Its risk management framework continues to evolve in order 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.

Macro-economic and market environment

Inflationary pressures have increased in the first half of 2022. Covid-19 lockdowns in some of the Chinese Mainland's major commercial and industrial centres have contributed to supply chain risks (although this has moderated to an extent since 2021) and have driven market volatility in the first half of 2022. Geopolitical tensions have become a key driver of economic conditions and policy. The Russia-Ukraine conflict continues to cast a long shadow, with economic and market stresses being particularly intense in Europe given its dependence on Russian energy and commodities. The lack of a clear pathway to resolving the conflict and uncertainty on the longer term evolution of tensions, have kept energy and commodity prices high and volatile. These factors have contributed to increases in inflation expectations and inflation rates, which have reached decades-high levels and with peaks becoming increasingly challenging to anticipate, constraining real incomes and growth to an increasing extent.

Central banks, led by those in major western economies, are responding to inflationary pressures with monetary policy tightening and base interest rate increases. Growth considerations are likely to complicate the picture for further increases. While concerns on inflation and growth having been lower in Asia in comparison, rising commodity prices are also pushing many central banks in the region to take action. Combined with the impacts of both tighter financial conditions and higher inflation, this increased pressures on risk asset prices in the first half of 2022, and consumer confidence in both developed and emerging markets in Asia has fallen sharply. The capital position of the Group and its local businesses have been monitored with high cadence and have remained robust throughout the first half of 2022. The Chinese Mainland (along with Japan) remain the regional exceptions in retaining relatively accommodative monetary policy. With fiscal policy and levels of stimulus having remained relatively tight during the global pandemic, and with further large scale sector-specific regulatory tightening unlikely, the material uncertainties for economic growth in the Chinese Mainland remains given its dynamic zero-Covid-19 policy and whether or how the government may eventually pivot away from it, as well as its ability to support domestic consumption. The macro-economic landscape and financial markets are expected to remain challenging and highly uncertain for financial markets. Prudential will carefully balance affordability and the impact on its customers with the need, and ability, to re-price where necessary. Prudential will actively monitor any medical reimbursement downgrade experience as such re-pricing is carried out.

Geopolitical landscape

The Russia-Ukraine conflict has resulted in a range of broader geopolitical implications, some of which currently remain uncertain. The direct implications were regularly monitored during the first half of 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, potentially increasing dependence on 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 accelerate the trend 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 reframed by events in Ukraine during the first half of 2022, and the relationship continues to be a key driver of levels of geopolitical tension, exerting pressure on policymakers in other geographies, including the Asia markets in which the Group operates. As the US and China prepare for key domestic political events in second half of 2022 (the mid-term Congressional elections in the US and the Communist Party Congress in China), diplomatic tensions between the two countries remain escalated and continue to be monitored, against a backdrop of increasing strategic competition and sustained bilateral criticism. While the pace of domestic regulatory reform in the Chinese Mainland has abated in first half of 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. Legislative or regulatory changes that adversely impact Hong Kong's economy or its international trading and economic relationships, as a key market which also hosts Group head office functions, could have an adverse impact on sales and distribution and the operations of the Prudential Group. Meanwhile, Covid-19 outbreaks and the Chinese Mainland and Hong Kong governments' continued application of their Covid-19 containment policies has prolonged the uncertainty on the timing of the border relaxation between the two territories.

Regulations

Prudential operates in highly regulated markets, and as the nature and focus of regulations and laws evolve, the complexity of regulatory (including sanctions) compliance continues to increase and represents a challenge for international businesses. Geopolitical tensions have the potential to increase strategic risks and the long-term complexity of legal and regulatory compliance for businesses operating across multiple jurisdictions. The complexity in sanctions compliance driven by the conflict remains high, although 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 pace and volume of regulatory changes and interventions, and swiftness of their application, seen in recent years in some of the Group's markets, including those driven by policy objectives for certain sectors and industries, has the potential to increase strategic and regulatory risks for 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, with recent examples of government and regulatory enforcement and civil actions against companies for misleading investors on ESG disclosures highlighting the disclosure and reputational risks in this area for the financial services industry. Developments in domestic and international capital standards continue to move forward, for example C-ROSS II in the Chinese Mainland and RBC in Hong Kong which were recently 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 market factors. 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. With all agreed transitional arrangements completed in the first half of 2022 (other than those relating to the grandfathering of debt), Prudential will continue to engage constructively with the Hong Kong IA as its Group-wide supervisor as it ensures ongoing sustainable compliance.

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.

During 2022 to date, the Group continued to review and update its policies and processes and significantly progressed the implementation of the Hong Kong IA's Group-wide Supervision (GWS) Framework, which became effective for the Group on 14 May 2021, with all agreed transitional arrangements completed (other than those relating to the grandfathering of debt). The Group constituted a new Group Investment Committee, chaired by the Group CFO, 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. Among the first matters considered by the Committee was potential investment impact to the Group from any escalation in the Russia-Ukraine conflict. Prudential has also focused on embedding climate change as a cross-cutting risk within the Group Risk Framework 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. Commencing in the second half of 2022, the Chief Risk and Compliance Officers of the Group's major businesses will formally become members of the Group Executive Risk Committee, the advisory committee to the Group CRCO, and will attend Group Risk Committee meetings on a rotational participating basis. The application of the Group's Risk Framework to the Pulse business is overseen by the Pulse Audit & Risk Committee for Pulse Ecosystems Limited, the holding company for Pulse, which has met regularly since its formation in the first half of 2021.

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 common purpose of helping people get the most out of life. The Board-established Responsibility & Sustainability Working Group supports its responsibilities in relation to implementation of the culture framework, as well as the embedding 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 locations and defines how Prudential expects business to be conducted in order 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 individuals; 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 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 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. Stress and scenario testing, which includes reverse stress testing requiring the Group to ascertain the point of business model failure, 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 annual set of principal risks are given enhanced management and reporting focus.

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, see below. 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 its major categories of risks are detailed in section 3 below.

Risk monitoring and reporting

The Group's principal risks inform 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 recognises 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 the business. The Group seeks to generate stakeholder value by selectively taking exposure to risks, reduced 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 liquidity, capital requirements 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 business-as-usual and stressed conditions the Group maintains sufficient 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 sufficient cash resources are available to meet financial obligations as they fall due in 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. At the end of 2021 the Group approved a more streamlined and simplified Non-Financial Risk Appetite Framework, which adopts an approach framed around the perspectives of its varied stakeholders, taking into account current and expected changes in the external environment. The embedding of the revised Framework, as well as simplification of the limit and trigger appetite thresholds for non-financial risk categories across the Group's locations commenced in the first half of 2022. 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 at 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 Factor disclosures can be found at the end of this document.

Risks to the Group's financial situation (including those from the external macro-economic 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 current jostling of the current world order and the increasing prioritisation of national and energy security has become a key determinant of macro-economic policy, with geopolitical and macro-economic uncertainties becoming intertwined. Geopolitical developments and tensions, macro-economic 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.

Macro-economic and geopolitical developments are considered material to the Group and can increase the operational, business disruption, regulatory and financial market risks, and with 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

This is the potential for reductions in the value of Prudential's investments driven by fluctuations in equity prices, interest rates, credit spreads, foreign exchange rates and property prices. With levels currently at decades-level highs, the Group's direct exposure to inflation, which remains modest, mainly arises through medical claims inflation, with rising medical import prices a factor under current market conditions, and can be managed by the business' well-established practice and ability to re-price. 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 asset liability committees (ALCOs);
 - 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 valuation of Prudential's assets (particularly government and corporate bonds) and liabilities, which are dependent on market interest rates. Sustained inflationary pressures have driven higher interest rates, which 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. Some of the Group's products are sensitive to movements in 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 interest rate risk exposure remains part of a balanced exposure to risks and is compatible with a robust solvency position.

The Group's risk exposure to rising interest rates 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 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 ALCOs are risk management advisory committees supporting the identification, assessment and management of key financial risks to the achievement of the Group's business objectives. They also oversee ALM and solvency 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.

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 the following: CPL is exposed 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 where a significant cash payment is due from a subsidiary to the Group, 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, increased liquid assets are required to be held as collateral under derivative transactions or where redemption requests are made against Prudential's external funds. 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;
- Its 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, as well as its cash deposits with banks. 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 its key markets. 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 Credit Risk 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 30 June 2022 for the Group's continuing operations were \$79.1 billion (30 June 2021: \$92.7 billion; 31 December 2021: \$99.1 billion). The majority (69 per cent) of the portfolio is in unit-linked and with-profits funds. The remaining 31 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 49 per cent or \$11.9 billion¹ of the shareholder debt portfolio of the Group's operations as at 30 June 2022 (30 June 2021: 46 per cent or \$13.0 billion of the shareholder debt portfolio for the Group's continuing operations; 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 30 June 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 \$10.1 billion or 88 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 30 June 2022:

- 88 per cent of the Group's shareholder portfolio (excluding all government and government-related debt) is investment grade rated². In particular, 54 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 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 negative 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 key markets and across operational, underwriting and investment activities. The Group's strategy includes a focus on ensuring a just and inclusive transition includes 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. It is enabled by strong internal governance, sound business practices and a responsible investment approach, with ESG considerations integrated into investment 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.

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 associations such as the International Association of Insurance Supervisors (IAIS). The Group continues to actively engage with, and respond to, discussions, consultations and supervisory information-gathering exercises. International regulatory and supervisory bodies, such as the International Sustainability Standards Board (ISSB), are progressing on ESG and sustainability-related disclosure requirements. Details of the Group's Sustainability and ESG-related risks are included in the disclosure on Risk Factors.

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 as well as to help drive consistency across Prudential's businesses. The Group Risk Framework continues to be critically evaluated to ensure both ESG and sustainability-related 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:

- The Group's 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;
- The Group Code of Business Conduct and Group Governance Manual including ESG-linked policies;
- Activities to embed ESG and sustainability risk within the Group Risk Framework including:
 - o Environmental and social risk identification including through emerging risk processes; and
 - o Deep dives into ESG themes, including climate-related risks;
- Integrating ESG considerations into investment processes and responsible supply chain management; and
- Participation in networks to further develop understanding and support collaborative action in relation to ESG sustainability risks such as climate change.

Further information on the Group's ESG governance and ESG strategic framework, as well as and 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 financial crime risk), transformation risks from significant change activity and the insurance risks assumed by the Group in providing its products.

Transformation risk

Transformation risk remains a material risk for Prudential, with a number of significant change programmes under way which if not delivered 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 the implementation of large scale regulatory changes; the expansion of the Group's digital capabilities and use of technology, platforms and analytics; and 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.

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.

Non-financial risks

The complexity of Prudential, its activities and the extent of transformation in progress creates a challenging operating environment and exposure to non-financial risks. The Group's appetite framework for non-financial risks considers risks across a broad range of categories which are outlined below. These risks are considered to be material at the level of the Group.

- **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.
- **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.** This includes risks related to malicious attack on systems, network disruption and the infringement of data security, integrity or privacy. The frequency and sophistication of intrusion activities and criminal capability in this area, including in ransomware (malicious software designed to block access to a computer system until a sum of money is paid), continues to increase globally. The technology landscape of Prudential is transforming at a rapid pace and the underlying technology infrastructure (and support services) has grown in scope and complexity in recent years. This, combined with stakeholder expectations and the potential for reputational and conduct risk from cyber security breaches and data misuse, which can be highly-publicised, mean that these risks are considered material at the level of the Group. As well as having preventative risk management processes in place, it is fundamental that the Group has robust critical recovery systems in place in the event of a successful attack on its infrastructure, a breach of its information security or a failure of its systems in order to retain its customer relationships and trusted reputation.

Prudential and the insurance industry are making increasing use of emerging technological tools and digital services, or partnering with third parties that provide these capabilities. While these provide new opportunities, opening up markets, improving insights and increasing scalability, it also comes with additional risks, including operational and data misuse risks, which are managed within the Group's existing governance and risk management processes. Automated digital distribution channels increase the criticality of system and process resilience in order to deliver uninterrupted service to customers.

Globally, ransomware and distributed denial of services (DDoS) attacks have increased markedly in the first half of 2022, in part driven by the Russia-Ukraine conflict. Prudential has a number of defences in place to protect its systems from these types of attack, including but not limited to: DDoS protection for the Group's websites via web application firewall services; AI-based endpoint security software; continuous security monitoring; network-based intrusion detection; and 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 are planned for the second half of 2022 to enhance preparedness.

Data protection requirements continue to evolve, and include developments in the Chinese Mainland outlined in the overview of the Group's regulatory risks below. As well as protecting data, stakeholders expect companies and organisations to use personal information transparently and appropriately. Control of data through national data security regimes has become an increasing priority for governments amid the increase in global strategic competition. This adds further complexity to regulatory compliance in this area, in particular in the cross-border transfer or use of data, for global organisations in addition to the existing regulatory, financial and reputational risks of a breach of Prudential's (or third-party suppliers') IT systems or loss or misuse of data. In the first half of 2022 a key focus has been the implementation of the Group's Data Policy, approved in 2021, which established Prudential's principles and requirements for effective and scalable data management in light of the increase in volume and variety of data expected to be held, as well as the speed at which it is collected, as part of the Group's digital aspirations.

The Group's Information Security and Data Privacy strategy has four key objectives: business enablement; continuous improvement of cyber defences; automation and optimisation; and governance and assurance to ascertain ongoing robustness of cyber security and privacy measures. A focus of Prudential has been ensuring consistent global coverage of security controls, following the operationalisation of a revised organisational structure and governance model for cyber security management. 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 input from business information security officers and with oversight from local risk committees. The Board is briefed at least twice annually on cyber security by the Group Chief Information Security Officer (CISO) to ensure that members have the means to enable appropriate oversight and understand the latest threats and regulatory expectations. The Group-wide information security policy was developed to support a pragmatic approach to the evolving regulatory environment globally and ensure compliance with all applicable privacy laws and regulations and the appropriate and ethical use of customer data. The policy was also developed with reference to international standards, including ISO 27001/2, the NIST Cyber Security Framework and supervisory guidelines. Local standards are aligned to local regulations and laws.

- **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 in acquiring new business using artificial intelligence and 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 as a result of failing 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), depending on the materiality and nature of the data used in these tools, as well as their complexity.

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 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 risk committees to support the measurement and management of the risk.

The Group's Model and UDA Policy includes a broad range of considerations when assessing model criticality, including stakeholders such as policyholders (in addition to shareholders) and associated reputational risk impacts. It also includes within its scope models in development.

Technological developments, in particular in the field of 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 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 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 being 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, there is a higher concentration of exposure to politically-exposed persons, or which otherwise have higher geopolitical risk exposure.

The Group-wide policies in place on anti-money laundering, fraud, sanctions and anti-bribery and corruption risks, which 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. Proactive fraud capabilities are in development and being rolled across local businesses. The Group has continued to strengthen and enhance its financial crime risk management capability through investment in advanced analytics and artificial intelligence tools. Proactive detective capabilities are being implemented across the Group, 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 are overseen by the Group Audit Committee.

Group-wide framework and risk management for operational and other 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. The key components of the framework are listed below. 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.

- 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 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.

- 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;
- Regulatory change teams to assist in proactively adapting and complying with regulatory developments;
- Group and business unit-level compliance oversight and risk-based testing in respect of adherence with regulations;
- 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.

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 is compatible with a robust solvency position.

The short-to-medium term impact of the Covid-19 pandemic to economic activity and employment levels, as well as restrictions on movement across the Group's markets, has the potential to elevate the incidence of claims, lapses, or surrenders of policies, and some policyholders may defer or stop paying insurance premiums or reduce deposits into retirement plans. In particular extended restrictions on movement could affect product persistency. The pandemic may also, in the longer-term, result in elevated claims and policy lapses or surrenders in a less direct way, and with some delay in time before being felt by the Group, due to factors such as policyholders deferring medical treatment during the pandemic (latent morbidity impacts), or policyholders lapsing or surrendering their policies on the expiry of grace periods for premium payments provided by the Group's businesses. 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 premium affordability. Mortality claims in some markets have been elevated and can be attributed to Covid-19. These have been closely monitored with targeted management actions having been implemented where necessary. 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.

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, while the cost of medical treatment increasing 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 policyholder reduced the level of the coverage/protection in order to reduce premium payments) following any re-pricing 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 as well as 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; 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 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;
- 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 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 is met. The Group's customer conduct risk framework, owned by the Group Chief Executive, 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. In alignment with the Group's purpose of helping people get the most out of life, Prudential strives towards making health and protection coverage affordable and accessible to all. Through Prudential's Pulse platform, there is increased focus on making insurance more inclusive to underserved segments of society through bite-size low-cost digital products and services.

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 Speak Out;
- 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

These include risks associated with prospective regulatory and legal changes and compliance with existing regulations and laws – including their retrospective application – with which the Group must comply in the conduct of its business.

Prudential operates in highly-regulated markets and under the ever-evolving requirements and expectations of diverse 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 that 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 Prudential 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 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 also 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:

- Risk assessment of the Business Plan which includes consideration of the Group's current strategies;
- Close monitoring and assessment of our business 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, other external ratings and then internal ratings have been used.
- 3 Primary sources of segmentation: Bloomberg Sector, Bloomberg Group and Merrill Lynch.

Corporate governance

The Directors confirm that the Company has complied with all the code provisions of the Corporate Governance Code (HK Code) issued by The Stock Exchange of Hong Kong Limited (the Hong Kong Stock Exchange) set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (Hong Kong Listing Rules) throughout the accounting period, except as described below.

The Company does not comply with 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 the board on the remuneration of non-executive directors. This provision is not compatible with provision 34 of the UK Corporate Governance Code issued by the Financial Reporting Council which recommends that the board determines the remuneration of non-executive directors. Prudential has chosen to adopt a practice in line with the recommendations of the UK Corporate Governance Code.

The Company has adopted securities dealing rules relating to transactions in Prudential securities by Directors on terms no less exacting than those set out in Appendix 10 to the Hong Kong Listing Rules except that a waiver in respect of certain requirements of Appendix 10 to the Hong Kong Listing Rules was granted by the Hong Kong Stock Exchange, originally on 28 February 2011, to take into account accepted practices in the UK. Having made specific enquiry of all Directors, the Directors of the Company have complied with these rules throughout the accounting period.

The Directors confirm that the financial results contained in this document have been reviewed by the Audit Committee.

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

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Condensed Consolidated Income Statement

	Note	2022 \$m	2021 \$m	
		Half year	Half year	Full year
Continuing operations:				
Gross premiums earned		12,241	11,521	24,217
Outward reinsurance premiums		(919)	(898)	(1,844)
Earned premiums, net of reinsurance	B1.3	11,322	10,623	22,373
Investment return		(24,570)	738	3,486
Other income		253	331	641
Total revenue, net of reinsurance	B1.3	(12,995)	11,692	26,500
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	C3.2	14,826	(7,748)	(18,911)
Acquisition costs and other expenditure	B2	(1,632)	(2,402)	(4,560)
Finance costs: interest on core structural borrowings of shareholder-financed businesses		(103)	(164)	(328)
Gain (loss) attaching to corporate transactions	D1.1	62	(56)	(35)
Total charges, net of reinsurance		13,153	(10,370)	(23,834)
Share of profit from joint ventures and associates, net of related tax		16	179	352
Profit before tax (being tax attributable to shareholders' and policyholders' returns) ^{note (i)}		174	1,501	3,018
Remove tax credit (charge) attributable to policyholders' returns		126	(238)	(342)
Profit before tax attributable to shareholders' returns	B1.1	300	1,263	2,676
Total tax charge attributable to shareholders' and policyholders' returns	B3.1	(68)	(431)	(804)
Remove tax (credit) charge attributable to policyholders' returns		(126)	238	342
Tax charge attributable to shareholders' returns	B3.1	(194)	(193)	(462)
Profit after tax from continuing operations	B1.4	106	1,070	2,214
Loss after tax from discontinued US operations ^{note (ii)}	D1.2	-	(5,707)	(5,027)
Profit (loss) for the period		106	(4,637)	(2,813)

Attributable to:

Equity holders of the Company:				
From continuing operations		104	1,063	2,192
From discontinued US operations		-	(5,073)	(4,234)
		104	(4,010)	(2,042)
Non-controlling interests:				
From continuing operations		2	7	22
From discontinued US operations		-	(634)	(793)
		2	(627)	(771)
Profit (loss) for the period		106	(4,637)	(2,813)

Earnings per share (in cents)

	Note	2022	2021	
		Half year	Half year	Full year
Based on profit attributable to equity holders of the Company:				
Basic				
Based on profit from continuing operations		3.8¢	40.9¢	83.4¢
Based on loss from discontinued US operations		-¢	(195.1)¢	(161.1)¢
Total basic earnings per share	B4	3.8¢	(154.2)¢	(77.7)¢
Diluted				
Based on profit from continuing operations		3.8¢	40.9¢	83.4¢
Based on loss from discontinued US operations		-¢	(195.1)¢	(161.1)¢
Total diluted earnings per share		3.8¢	(154.2)¢	(77.7)¢

Dividends per share (in cents)

	Note	2022	2021	
		Half year	Half year	Full year
Dividends relating to reporting period:				
B5				
First interim ordinary dividend		5.74¢	5.37¢	5.37¢
Second interim ordinary dividend		-	-	11.86¢
Total relating to reporting period		5.74¢	5.37¢	17.23¢
Dividends paid in reporting period:				
B5				
Current year first interim dividend		-	-	5.37¢
Second interim ordinary dividend for prior year		11.86¢	10.73¢	10.73¢
Total paid in reporting period		11.86¢	10.73¢	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 of the Company 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 half year and full year 2021 related to the US operations (Jackson) that were demerged from the Group in September 2021.

Condensed Consolidated Statement of Comprehensive Income

	Note	2022 \$m	2021 \$m	
		Half year	Half year	Full year
Continuing operations:				
Profit for the period		106	1,070	2,214
Other comprehensive income (loss):				
Exchange movements arising during the period		(523)	(163)	(180)
Valuation movements on retained interest in Jackson classified as available-for-sale securities		(247)	–	250
Total items that may be reclassified subsequently to profit or loss		(770)	(163)	70
Total comprehensive (loss) income from continuing operations		(664)	907	2,284
Total comprehensive loss for the period from discontinued US operations	D1.2	–	(6,574)	(7,068)
Total comprehensive loss for the period		(664)	(5,667)	(4,784)
Attributable to:				
Equity holders of the Company:				
From continuing operations		(656)	905	2,277
From discontinued US operations		–	(5,844)	(6,283)
		(656)	(4,939)	(4,006)
Non-controlling interests:				
From continuing operations		(8)	2	7
From discontinued US operations		–	(730)	(785)
		(8)	(728)	(778)
Total comprehensive loss for the period		(664)	(5,667)	(4,784)

Condensed Consolidated Statement of Changes in Equity

Period ended 30 Jun 2022 \$m									
Note	Share capital	Share premium	Retained earnings	Translation reserve	Available -for-sale securities reserves	Shareholders' equity	Non-controlling interests	Total equity	
Reserves									
	-	-	104	-	-	104	2	106	
	-	-	-	(513)	(247)	(760)	(10)	(770)	
	-	-	104	(513)	(247)	(656)	(8)	(664)	
Transactions with owners of the Company									
B5	-	-	(320)	-	-	(320)	(5)	(325)	
	-	-	15	-	-	15	-	15	
	-	-	(14)	-	-	(14)	-	(14)	
	-	-	(4)	-	-	(4)	-	(4)	
	-	-	(219)	(513)	(247)	(979)	(13)	(992)	
	182	5,010	10,216	1,430	250	17,088	176	17,264	
	182	5,010	9,997	917	3	16,109	163	16,272	

Period ended 30 Jun 2021 \$m									
Note	Share capital	Share premium	Retained earnings	Translation reserve	Available -for-sale securities reserves	Shareholders' equity	Non-controlling interests	Total equity	
Reserves									
	-	-	1,063	-	-	1,063	7	1,070	
	-	-	-	(158)	-	(158)	(5)	(163)	
	-	-	1,063	(158)	-	905	2	907	
D1.2	-	-	(5,073)	-	(771)	(5,844)	(730)	(6,574)	
	-	-	(4,010)	(158)	(771)	(4,939)	(728)	(5,667)	
Transactions with owners of the Company									
B5	-	-	(283)	-	-	(283)	(3)	(286)	
	-	-	77	-	-	77	-	77	
	-	-	(10)	-	-	(10)	-	(10)	
C8	-	8	-	-	-	8	-	8	
	-	-	(18)	-	-	(18)	-	(18)	
	-	8	(4,244)	(158)	(771)	(5,165)	(731)	(5,896)	
	173	2,637	14,424	1,132	2,512	20,878	1,241	22,119	
	173	2,645	10,180	974	1,741	15,713	510	16,223	

Condensed Consolidated Statement of Changes in Equity (continued)

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									
Profit for the year		–	–	2,192	–	–	2,192	22	2,214
Other comprehensive (loss) income		–	–	–	(165)	250	85	(15)	70
Total comprehensive income (loss) from continuing operations		–	–	2,192	(165)	250	2,277	7	2,284
Total comprehensive (loss) income from discontinued US operations	D1.2	–	–	(4,234)	463	(2,512)	(6,283)	(785)	(7,068)
Total comprehensive (loss) income for the year		–	–	(2,042)	298	(2,262)	(4,006)	(778)	(4,784)
Transactions with owners of the Company									
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	(2,262)	(3,790)	(1,065)	(4,855)
Balance at beginning of year		173	2,637	14,424	1,132	2,512	20,878	1,241	22,119
Balance at end of year		182	5,010	10,216	1,430	250	17,088	176	17,264

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

Condensed Consolidated Statement of Financial Position

	Note	2022 \$m	2021 \$m	
		30 Jun	30 Jun	31 Dec
Assets				
Goodwill	C4.1	871	926	907
Deferred acquisition costs and other intangible assets	C4.2	6,750	6,525	6,858
Property, plant and equipment		405	525	478
Reinsurers' share of insurance contract liabilities		2,750	9,891	9,753
Deferred tax assets	C7	378	298	266
Current tax recoverable		22	23	20
Accrued investment income		1,187	1,092	1,171
Other debtors		2,076	2,238	1,779
Investment properties		35	39	38
Investments in joint ventures and associates accounted for using the equity method	C1	2,010	2,056	2,183
Loans	C1	2,429	2,440	2,562
Equity securities and holdings in collective investment schemes ^{note (i)}	C1	57,497	60,466	61,601
Debt securities ^{note (i)}	C1	79,119	92,728	99,094
Derivative assets		182	485	481
Deposits		4,762	3,344	4,741
Assets held for distribution ^{note (ii)}		–	335,750	–
Cash and cash equivalents		6,415	6,295	7,170
Total assets	C1	166,888	525,121	199,102
Equity				
Shareholders' equity		16,109	15,713	17,088
Non-controlling interests		163	510	176
Total equity	C1	16,272	16,223	17,264
Liabilities				
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	C3.2	123,529	144,809	151,915
Unallocated surplus of with-profits funds	C3.2	4,568	6,273	5,384
Core structural borrowings of shareholder-financed businesses	C5.1	4,266	6,404	6,127
Operational borrowings	C5.2	854	895	861
Obligations under funding, securities lending and sale and repurchase agreements		799	396	223
Net asset value attributable to unit holders of consolidated investment funds		4,549	5,770	5,664
Deferred tax liabilities	C7	2,699	2,735	2,862
Current tax liabilities		253	200	185
Accruals, deferred income and other liabilities		8,103	8,017	7,983
Provisions		225	227	372
Derivative liabilities		771	412	262
Liabilities held for distribution ^{note (ii)}		–	332,760	–
Total liabilities	C1	150,616	508,898	181,838
Total equity and liabilities	C1	166,888	525,121	199,102

Notes

- (i) Included within equity securities and holdings in collective investment schemes and debt securities as at 30 June 2022 are \$1,384 million of lent securities and assets subject to repurchase agreements (30 June 2021: \$1,006 million; 31 December 2021: \$854 million).
- (ii) Assets and liabilities held for distribution at 30 June 2021 related to the Group's US operations (Jackson) which were classified as discontinued operations in half year 2021 and demerged in September 2021.

Condensed Consolidated Statement of Cash Flows

	Note	2022 \$m	2021 \$m	
		Half year	Half year	Full year
Continuing operations:				
Cash flows from operating activities				
Profit before tax (being tax attributable to shareholders' and policyholders' returns)		174	1,501	3,018
Adjustments to profit before tax for non-cash movements in operating assets and liabilities:				
Investments		21,017	(5,651)	(14,553)
Other non-investment and non-cash assets		6,446	2,693	2,658
Policyholder liabilities (including unallocated surplus of with-profits funds)		(25,972)	2,424	9,095
Other liabilities (including operational borrowings)		74	105	16
Other items ^{note (i)}		(23)	156	44
Net cash flows from operating activities ^{note (ii)}		1,716	1,228	278
Cash flows from investing activities				
Net cash flows from purchases and disposals of property, plant and equipment		(14)	(19)	(36)
Net cash flows from other investing activities ^{note (iii)}		(50)	(773)	(690)
Net cash flows from investing activities		(64)	(792)	(726)
Cash flows from financing activities				
Structural borrowings of shareholder-financed operations: ^{note (iv)}	C5.1			
Issuance of debt, net of costs		346	–	995
Redemption of debt		(2,075)	–	(1,250)
Interest paid		(117)	(163)	(314)
Payment of principal portion of lease liabilities		(56)	(54)	(118)
Equity capital:				
Issues of ordinary share capital		–	8	2,382
External dividends:				
Dividends paid to the Company's shareholders	B5	(320)	(283)	(421)
Dividends paid to non-controlling interests		(5)	(3)	(9)
Net cash flows from financing activities		(2,227)	(495)	1,265
Net (decrease) increase in cash and cash equivalents from continuing operations		(575)	(59)	817
Net decrease in cash and cash equivalents from discontinued US operations	D1.2	–	(460)	(1,621)
Cash and cash equivalents at beginning of period		7,170	8,018	8,018
Effect of exchange rate changes on cash and cash equivalents		(180)	(43)	(44)
Cash and cash equivalents at end of period		6,415	7,456	7,170
Comprising:				
Cash and cash equivalents from continuing operations		6,415	6,295	7,170
Cash and cash equivalents from discontinued US operations	D1.2	–	1,161	–

Notes

- (i) Other items include adjustments to profit before tax in respect of non-cash items together with operational interest receipts and payments, dividend receipts and tax paid.
- (ii) Included in net cash flows from operating activities are dividends from joint ventures and associates of \$60 million (half year 2021: \$114 million; full year 2021: \$175 million).
- (iii) 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.
- (iv) 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:

	Balance at beginning of period \$m	Cash movements \$m		Non-cash movements \$m			Balance at end of period \$m
		Issuance of debt	Redemption of debt	Foreign exchange movement	Demerger of Jackson	Other movements	
30 Jun 2022	6,127	346	(2,075)	(137)	–	5	4,266
30 Jun 2021	6,633	–	–	14	(250)	7	6,404
31 Dec 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 condensed consolidated interim financial statements ('interim financial statements') for the six months ended 30 June 2022 have been prepared in accordance with both IAS 34 'Interim Financial Reporting' as issued by the IASB and IAS 34 as adopted for use in the UK. The Group's policy for preparing this interim financial information is to use the accounting policies adopted by the Group in its last consolidated financial statements, as updated by any changes in accounting policies it intends to make in its next consolidated financial statements as a result of new or amended IFRS and other policy improvements. At 30 June 2022, there were no unadopted standards effective for the period ended 30 June 2022 which impacted the interim 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 accounting policies applied by the Group in determining the IFRS financial results in this report are the same as those previously applied in the Group's consolidated financial statements for the year ended 31 December 2021, as disclosed in the 2021 annual report, aside from those discussed in note A2 below.

The IFRS financial results for half year 2022 and half year 2021 are unaudited. The 2021 full year IFRS financial results have been derived from the 2021 statutory accounts. The auditors have reported on the 2021 statutory accounts which have been delivered to the Registrar of Companies. 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 that these interim 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 it, as well as the results of the Group's stress and sensitivity 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 that these interim financial statements are approved. No material uncertainties that may cast significant doubt on the ability of 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 interim financial statements for the period ended 30 June 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 period end			Average rate for the period to date		
	30 Jun 2022	30 Jun 2021	31 Dec 2021	Half year 2022	Half year 2021	Full year 2021
Chinese yuan (CNY)	6.69	6.46	6.37	6.48	6.47	6.45
Hong Kong dollar (HKD)	7.85	7.77	7.80	7.83	7.76	7.77
Indian rupee (INR)	78.97	74.33	74.34	76.23	73.33	73.94
Indonesian rupiah (IDR)	14,897.50	14,500.00	14,252.50	14,453.52	14,273.32	14,294.88
Malaysian ringgit (MYR)	4.41	4.15	4.17	4.27	4.10	4.15
Singapore dollar (SGD)	1.39	1.34	1.35	1.37	1.33	1.34
Taiwan dollar (TWD)	29.73	27.86	27.67	28.73	28.02	27.93
Thai baht (THB)	35.35	32.06	33.19	33.73	30.83	32.01
UK pound sterling (GBP)	0.82	0.72	0.74	0.77	0.72	0.73
Vietnamese dong (VND)	23,265.00	23,016.00	22,790.00	22,925.22	23,044.83	22,934.86

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

A2 New accounting pronouncements

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

- 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 interim financial statements.

In addition, in 2023 IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments' will become effective. The Group has a Group-wide implementation programme to implement IFRS 17 and IFRS 9. The programme is responsible for setting Group-wide accounting policies and developing application methodologies, establishing appropriate processes and controls, sourcing appropriate data and implementing actuarial and finance system changes. During half year 2022 the Group has made significant progress with the testing of new actuarial and finance systems in our preparations for IFRS 17 adoption in 2023. Elements of the detailed calculation methodology remain subject to wider discussion and debate in the industry. It is not currently practicable to provide reliable estimates of the quantitative impact on the Group's results and financial position. A further update on our IFRS 17 progress will be provided in our FY 22 financial statements.

B Earnings performance

B1 Analysis of performance by segment

B1.1 Segment results

	2022 \$m		2021 \$m		2022 vs 2021 %		2021 \$m
	Note	Half year note (i)	Half year AER note (i)	Half year CER note (i)	Half year AER note (i)	Half year CER note (i)	Full year AER note (i)
Continuing operations:							
CPL		149	139	139	7%	7%	343
Hong Kong		501	460	457	9%	10%	975
Indonesia		196	225	222	(13)%	(12)%	446
Malaysia		190	184	175	3%	9%	350
Singapore		340	320	312	6%	9%	663
Growth markets and other ^{note (ii)}		522	479	463	9%	13%	932
Eastspring		131	162	155	(19)%	(15)%	314
Total segment profit		2,029	1,969	1,923	3%	6%	4,023
Other income (expenditure):							
Investment return and other income		39	–	–	n/a	n/a	21
Interest payable on core structural borrowings		(103)	(164)	(164)	37%	37%	(328)
Corporate expenditure ^{note (iii)}		(150)	(157)	(151)	4%	1%	(298)
Total other income (expenditure)		(214)	(321)	(315)	33%	32%	(605)
Restructuring and IFRS 17 implementation costs ^{note (iv)}		(154)	(77)	(77)	(100)%	(100)%	(185)
Adjusted operating profit	B1.2	1,661	1,571	1,531	6%	8%	3,233
Short-term fluctuations in investment returns on shareholder-backed business ^{note (v)}		(1,383)	(212)	(234)	(552)%	(491)%	(458)
Amortisation of acquisition accounting adjustments		(5)	(2)	(2)	(150)%	(150)%	(5)
Gain (loss) attaching to corporate transactions	D1.1	27	(94)	(94)	n/a	n/a	(94)
Profit before tax attributable to shareholders		300	1,263	1,201	(76)%	(75)%	2,676
Tax charge attributable to shareholders' returns	B3	(194)	(193)	(176)	(1)%	(10)%	(462)
Profit from continuing operations		106	1,070	1,025	(90)%	(90)%	2,214
Loss from discontinued US operations	D1.2	–	(5,707)	(5,707)	n/a	n/a	(5,027)
Profit (loss) for the period		106	(4,637)	(4,682)	n/a	n/a	(2,813)

Attributable to:

Equity holders of the Company:

From continuing operations	104	1,063	1,018	(90)%	(90)%	2,192
From discontinued US operations	–	(5,073)	(5,073)	n/a	n/a	(4,234)
	104	(4,010)	(4,055)	n/a	n/a	(2,042)

Non-controlling interests:

From continuing operations	2	7	7	(71)%	(71)%	22
From discontinued US operations	–	(634)	(634)	n/a	n/a	(793)
	2	(627)	(627)	n/a	n/a	(771)

Profit (loss) for the period		106	(4,637)	(4,682)	n/a	n/a	(2,813)
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Basic earnings per share (in cents)

	2022		2021		2022 vs 2021 %		2021
	Note	Half year note (i)	Half year AER note (i)	Half year CER note (i)	Half year AER note (i)	Half year CER note (i)	Full year AER note (i)
Based on adjusted operating profit, net of tax and non-controlling interest, from continuing operations	B4	49.2¢	51.6¢	50.5¢	(5)%	(3)%	101.5¢
Based on profit from continuing operations, net of non-controlling interest		3.8¢	40.9¢	39.2¢	(91)%	(90)%	83.4¢
Based on loss from discontinued US operations, net of non-controlling interest		–¢	(195.1)¢	(195.1)¢	n/a	n/a	(161.1)¢

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 \$160 million (half year 2021: \$167 million on an AER basis and \$161 million on a CER basis; full year 2021: \$217 million on an AER basis) which in the first half of 2022 comprised largely of the impact of the adoption of the Risk-Based Capital regime in Hong Kong (as discussed further in note C3.2) offset by corporate taxes for life joint ventures and associates and provisions for sales and premium tax.
- (iii) Corporate expenditure as shown above is for head office functions in London and Hong Kong.
- (iv) Restructuring and IFRS 17 implementation costs include those incurred in insurance and asset management operations of \$(44) million (half year 2021: \$(33) million; full year 2021: \$(101) million).

- (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 period. In half year 2022, rising interest rates and widening credits 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 under the local reserving basis applied. The interest rates rises in the first half of 2022 were more substantial than that seen in the first half 2021. Short-term fluctuations also reflect losses on equities backing shareholder-backed business following market movements in the period (compared with equity gains in the prior period) 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 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 Group Chief Executive. There have been no changes to the Group's operating segments as reported in these interim financial statements from those reported in the Group's consolidated financial statements for the year ended 31 December 2021.

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 period 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, as discussed in note D1.1.

The determination of adjusted operating profit for investment and liability movements is as described in note B1.2 of the Group's consolidated financial statements for the year ended 31 December 2021.

For debt securities at 30 June 2022, the level of unamortised interest-related realised gains and losses related to previously sold bonds was a net gain of \$211 million (30 June 2021: \$414 million; 31 December 2021: \$515 million).

For equity-type securities, 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 equity-type securities.

For insurance operations, investments in equity securities held for non-linked shareholder-backed business at 30 June 2022 amounted to \$5,756 million (30 June 2021: \$5,447 million; 31 December 2021: \$6,073 million). The longer-term rates of return applied in half year 2022 ranged from 4.6 per cent to 16.9 per cent (half year 2021: 5.5 per cent to 16.9 per cent; full year 2021: 5.5 per cent to 16.9 per cent) with the rates applied varying by business unit.

B1.3 Additional segmental analysis of revenue

	Half year 2022 \$m									
	Insurance operations ^{note (i)}					Growth markets and other	Inter-segment elimination	Total segment	Un-allocated to a segment	Total
	Hong Kong	Indonesia	Malaysia	Singapore	Eastspring					
Gross premiums earned	4,672	809	934	3,616	2,210	–	–	12,241	–	12,241
Outward reinsurance premiums	(771)	(18)	(29)	(70)	(31)	–	–	(919)	–	(919)
Earned premiums, net of reinsurance	3,901	791	905	3,546	2,179	–	–	11,322	–	11,322
Other income ^{note (ii)}	14	4	–	9	45	181	–	253	–	253
Total external revenue	3,915	795	905	3,555	2,224	181	–	11,575	–	11,575
Intra-group revenue	–	–	–	–	1	106	(107)	–	–	–
Interest income	510	39	115	395	317	1	–	1,377	3	1,380
Dividend and other investment income	338	103	103	321	66	–	–	931	19	950
Investment (depreciation) appreciation	(17,752)	(144)	(557)	(6,134)	(2,324)	(17)	–	(26,928)	28	(26,900)
Total revenue, net of reinsurance	(12,989)	793	566	(1,863)	284	271	(107)	(13,045)	50	(12,995)

Half year 2021 \$m										
Insurance operations ^{note (i)}										
	Hong Kong	Indonesia	Malaysia	Singapore	Growth markets and other	Eastspring	Inter-segment elimination	Total segment	Un-allocated to a segment	Total
Gross premiums earned	4,776	871	929	2,934	2,011	–	–	11,521	–	11,521
Outward reinsurance premiums	(767)	(28)	(22)	(55)	(26)	–	–	(898)	–	(898)
Earned premiums, net of reinsurance	4,009	843	907	2,879	1,985	–	–	10,623	–	10,623
Other income ^{note (ii)}	24	5	1	10	57	234	–	331	–	331
Total external revenue	4,033	848	908	2,889	2,042	234	–	10,954	–	10,954
Intra-group revenue	–	–	–	–	–	106	(106)	–	–	–
Interest income	528	46	117	462	303	1	–	1,457	–	1,457
Dividend and other investment income	214	33	101	186	39	–	–	573	–	573
Investment (depreciation) appreciation	(1,444)	(135)	(280)	817	(259)	9	–	(1,292)	–	(1,292)
Total revenue, net of reinsurance	3,331	792	846	4,354	2,125	350	(106)	11,692	–	11,692

Full year 2021 \$m										
Insurance operations ^{note (i)}										
	Hong Kong	Indonesia	Malaysia	Singapore	Growth markets and other	Eastspring	Inter-segment elimination	Total segment	Un-allocated to a segment	Total
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	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 50/50 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 half year 2022 is \$1,605 million (half year 2021: \$1,307 million; full year 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 \$181 million (half year 2021: \$234 million; full year 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.

B1.4 Additional segmental analysis of profit after tax

	2022 \$m		2021 \$m	
	Half year	Full year	Half year	Full year
CPL	(28)	148	148	278
Hong Kong	(613)	441	441	1,068
Indonesia	131	179	179	362
Malaysia	119	135	135	265
Singapore	63	141	141	394
Growth markets and other ^{note (i)}	617	330	330	434
Eastspring	117	147	147	284
Total segment	406	1,521	1,521	3,085
Unallocated to a segment (central operations) ^{note (ii)}	(300)	(451)	(451)	(871)
Total profit after tax from continuing operations	106	1,070	1,070	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 period, in line with the presentation used by management when assessing the performance of the underlying segments internally.
- (ii) Comprising other income and expenditure of \$(214) million (half year 2021: \$(321) million; full year 2021: \$(605) million) attributable to the head office functions in London and Hong Kong and \$(154) million (half year 2021: \$(77) million; full year 2021: \$(185) million) of restructuring and IFRS 17 implementation costs as shown in note B1.1, \$7 million (half year 2021: \$(4) million; full year 2021: \$(25) million) of short-term fluctuations on investment returns, \$62 million (half year 2021: \$(56) million; full year 2021: \$(35) million) from corporate transactions as shown in note D1.1 and related tax of \$(1) million (half year 2021: \$7 million; full year 2021: \$(21) million).

B2 Acquisition costs and other expenditure

	2022 \$m	2021 \$m	
	Half year	Half year	Full year
Acquisition costs incurred for insurance policies	(1,120)	(1,026)	(2,089)
Acquisition costs deferred	426	373	848
Amortisation of acquisition costs	(249)	(186)	(343)
Administration costs and other expenditure (net of other reinsurance commission) ^{note}	(1,572)	(1,542)	(3,128)
Movements in amounts attributable to external unit holders of consolidated investment funds	883	(21)	152
Total acquisition costs and other expenditure from continuing operations	(1,632)	(2,402)	(4,560)

Note

Included in total administration costs and other expenditure is depreciation of property, plant and equipment of \$(71) million (half year 2021: \$(85) million; full year 2021: \$(169) million), of which \$(53) million (half year 2021: \$(62) million; full year 2021: \$(123) million) relates to the right-of-use assets recognised under IFRS 16 and interest on the IFRS 16 lease liabilities of \$(5) million (half year 2021: \$(6) million; full year 2021: \$(13) million).

B3 Tax charge

B3.1 Total tax charge by nature

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

	2022 \$m	2021 \$m	
	Half year	Half year	Full year
Continuing operations:			
Attributable to shareholders:			
Hong Kong	(29)	(16)	(40)
Indonesia	(38)	(45)	(74)
Malaysia	(35)	(28)	(71)
Singapore	(3)	(23)	(67)
Growth markets and other	(74)	(73)	(159)
Eastspring	(14)	(15)	(30)
Total segment	(193)	(200)	(441)
Unallocated to a segment (central operations)	(1)	7	(21)
Tax charge attributable to shareholders	(194)	(193)	(462)
Attributable to policyholders:			
Hong Kong	(30)	(40)	(79)
Indonesia	5	(2)	4
Malaysia	(4)	(2)	(2)
Singapore	155	(194)	(261)
Growth markets and other	-	-	(4)
Tax credit (charge) attributable to policyholders	126	(238)	(342)
Total tax charge from continuing operations	(68)	(431)	(804)
Analysed by:			
Current tax	(255)	(189)	(399)
Deferred tax	187	(242)	(405)
Total tax charge from continuing operations	(68)	(431)	(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 credit (charge) attributable to policyholders of \$126 million (half year 2021: \$(238) million; full year 2021: \$(342) million) above is equal to the profit before tax attributable to policyholders. This is the result of accounting for policyholder income after the deduction of expenses and movement in unallocated surpluses on an after-tax basis.

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 of the continuing operations. It reflects the corporation tax rates of each jurisdiction weighted by reference to the amount of profit or loss contributing to the aggregate result from continuing operations.

	2022		2021			
	Half year		Half year		Full year	
	Tax attributable to shareholders \$m	Percentage impact on ETR %	Tax attributable to shareholders \$m	Percentage impact on ETR %	Tax attributable to shareholders \$m	Percentage impact on ETR %
Continuing operations						
Adjusted operating profit	1,661		1,571		3,233	
Non-operating result ^{note (i)}	(1,361)		(308)		(557)	
Profit before tax	300		1,263		2,676	
Tax charge at the expected rate	(65)	22%	(259)	21%	(539)	20%
Effects of recurring tax reconciliation items:						
Income not taxable or taxable at concessionary rates ^{note (ii)}	47	(16)%	33	(3)%	63	(2)%
Deductions not allowable for tax purposes ^{note (iii)}	(135)	45%	(34)	3%	(92)	3%
Items related to taxation of life insurance businesses ^{note (iv)}	49	(16)%	71	(6)%	177	(7)%
Deferred tax adjustments including unrecognised tax losses ^{note (v)}	(48)	16%	(70)	5%	(111)	4%
Effect of results of joint ventures and associates ^{note (vi)}	2	(1)%	37	(3)%	80	(3)%
Irrecoverable withholding taxes ^{note (vii)}	(30)	10%	(35)	3%	(60)	2%
Other	(12)	4%	2	0%	(8)	1%
Total (charge) credit on recurring items	(127)	42%	4	(1)%	49	(2)%
Effects of non-recurring tax reconciliation items:						
Adjustments to tax charge in relation to prior years	(1)	1%	6	0%	(11)	0%
Movements in provisions for open tax matters ^{note (viii)}	(1)	0%	59	(5)%	47	(2)%
Impact of changes in local statutory tax rates	–	0%	8	(1)%	6	0%
Adjustments in relation to business disposals and corporate transactions	–	0%	(11)	1%	(14)	1%
Total (charge) credit on non-recurring items	(2)	1%	62	(5)%	28	(1)%
Total actual tax charge	(194)	65%	(193)	15%	(462)	17%
Analysed into:						
Tax on adjusted operating profit	(314)		(222)		(548)	
Tax on non-operating result ^{note (i)}	120		29		86	
Actual tax rate on:						
Adjusted operating profit:						
Including non-recurring tax reconciling items ^{note (ix)}	19%		14%		17%	
Excluding non-recurring tax reconciling items	19%		19%		18%	
Total profit ^{note (ix)}	65%		15%		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.
- (ii) Income not taxable or taxable at concessionary rates primarily relates to non-taxable investment income in Singapore and Malaysia.
- (iii) Deductions 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 periods.
- (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.

	Half year 2022 \$m
Balance at beginning of period	42
Movements in the current period included in tax charge attributable to shareholders	1
Provisions utilised in the period	–
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)	–
Balance at end of period	43

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

Half year 2022 %								
	Hong Kong	Indonesia	Malaysia	Singapore	Growth markets and other	Eastspring	Other operations	Total attributable to shareholders
Tax rate on adjusted operating profit	6%	22%	23%	14%	25%	11%	0%	19%
Tax rate on profit before tax	(5)%	22%	23%	5%	11%	11%	0%	65%

Half year 2021 %								
	Hong Kong	Indonesia	Malaysia	Singapore	Growth markets and other	Eastspring	Other operations	Total attributable to shareholders
Tax rate on adjusted operating profit	4%	20%	18%	16%	14%	9%	2%	14%
Tax rate on profit before tax	4%	20%	17%	14%	18%	9%	2%	15%

Full year 2021 %								
	Hong Kong	Indonesia	Malaysia	Singapore	Growth markets and other	Eastspring	Other operations	Total attributable to shareholders
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

Half year 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	1,661	(314)	(4)	1,343	49.2¢	49.2¢
Short-term fluctuations in investment returns on shareholder-backed business	(1,383)	118	2	(1,263)	(46.2)¢	(46.2)¢
Amortisation of acquisition accounting adjustments	(5)	-	-	(5)	(0.2)¢	(0.2)¢
Gain attaching to corporate transactions	27	2	-	29	1.0¢	1.0¢
Based on profit for the period	300	(194)	(2)	104	3.8¢	3.8¢

Half year 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	1,571	(222)	(7)	1,342	51.6¢	51.6¢
Short-term fluctuations in investment returns on shareholder-backed business	(212)	26	-	(186)	(7.2)¢	(7.2)¢
Amortisation of acquisition accounting adjustments	(2)	-	-	(2)	(0.1)¢	(0.1)¢
Loss attaching to corporate transactions	(94)	3	-	(91)	(3.4)¢	(3.4)¢
Based on profit from continuing operations	1,263	(193)	(7)	1,063	40.9¢	40.9¢
Based on loss from discontinued US operations				(5,073)	(195.1)¢	(195.1)¢
Based on loss for the period				(4,010)	(154.2)¢	(154.2)¢

Full year 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 period, 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 Company's ordinary shares during the period. 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	
	Half year	Half year	Full year
Weighted average number of shares for calculation of basic earnings per share	2,736	2,601	2,628
Shares under option at end of period	–	2	2
Shares that would have been issued at fair value on assumed option price at end of period	–	(2)	(2)
Weighted average number of shares for calculation of diluted earnings per share	2,736	2,601	2,628

B5 Dividends

	Half year 2022		Half year 2021		Full year 2021	
	Cents per share	\$m	Cents per share	\$m	Cents per share	\$m
Dividends relating to reporting period:						
First interim ordinary dividend	5.74¢	158	5.37¢	140	5.37¢	140
Second interim ordinary dividend	–	–	–	–	11.86¢	326
Total relating to reporting period	5.74¢	158	5.37¢	140	17.23¢	466
Dividends paid in reporting period:						
Current year first interim ordinary dividend	–	–	–	–	5.37¢	138
Second interim ordinary dividend for prior year	11.86¢	320	10.73¢	283	10.73¢	283
Total paid in reporting period	11.86¢	320	10.73¢	283	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

On 27 September 2022, Prudential will pay a first interim ordinary dividend of 5.74 cents per ordinary share for the year ending 31 December 2022. The first interim dividend will be paid to shareholders included on the UK register at 6.00pm BST and to shareholders on the HK register at 4.30pm Hong Kong time on 19 August 2022 (Record Date) and also to the Holders of US American Depositary Receipts (ADRs) as at 19 August 2022. The first interim dividend will be paid on or about 4 October 2022 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 Hong Kong 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 Hong Kong registers may elect to receive dividend payments in USD. Elections must be made through the relevant UK or Hong Kong share registrar on or before 5 September 2022 (UK) and 9 September 2022 (HK), respectively. The corresponding amounts per share in GBP and HKD are expected to be announced on or about 16 September 2022. 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 30 June 2022 were \$1,056 million (30 June 2021: \$986 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-.

30 Jun 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	Elimination of intra-group debtors and creditors	Group total
Debt securities:									
Sovereign debt									
Indonesia	496	614	445	9	-	1,564	-	-	1,564
Singapore	3,176	525	767	54	-	4,522	-	-	4,522
Thailand	-	-	1,222	-	-	1,222	-	-	1,222
United Kingdom	-	5	-	-	-	5	-	-	5
United States	20,961	22	3,262	-	-	24,245	-	-	24,245
Vietnam	-	13	2,813	-	-	2,826	-	-	2,826
Other (predominantly Asia)	1,940	709	3,334	27	-	6,010	-	-	6,010
Subtotal	26,573	1,888	11,843	90	-	40,394	-	-	40,394
Other government bonds									
AAA	1,361	77	131	-	-	1,569	-	-	1,569
AA+ to AA-	101	13	27	-	-	141	-	-	141
A+ to A-	757	125	257	-	-	1,139	-	-	1,139
BBB+ to BBB-	288	44	64	-	-	396	-	-	396
Below BBB- and unrated	234	20	424	-	-	678	-	-	678
Subtotal^{note (vi)}	2,741	279	903	-	-	3,923	-	-	3,923
Corporate bonds									
AAA	1,055	171	392	-	-	1,618	-	-	1,618
AA+ to AA-	1,890	363	1,594	-	-	3,847	-	-	3,847
A+ to A-	7,020	529	4,129	-	-	11,678	-	-	11,678
BBB+ to BBB-	7,657	1,419	3,948	1	-	13,025	-	-	13,025
Below BBB- and unrated	2,507	424	1,395	-	-	4,326	-	-	4,326
Subtotal^{note (vi)}	20,129	2,906	11,458	1	-	34,494	-	-	34,494
Asset-backed securities									
AAA	135	5	95	-	-	235	-	-	235
AA+ to AA-	6	1	4	-	-	11	-	-	11
A+ to A-	22	-	14	-	-	36	-	-	36
BBB+ to BBB-	14	-	8	-	-	22	-	-	22
Below BBB- and unrated	2	1	1	-	-	4	-	-	4
Subtotal^{note (vi)}	179	7	122	-	-	308	-	-	308
Total debt securities^{note (ii)}	49,622	5,080	24,326	91	-	79,119	-	-	79,119
Loans:									
Mortgage loans	-	-	141	-	-	141	-	-	141
Policy loans	1,392	-	378	-	-	1,770	-	-	1,770
Other loans	509	-	9	-	-	518	-	-	518
Total loans	1,901	-	528	-	-	2,429	-	-	2,429
Equity securities and holdings in collective investment schemes:									
Direct equities	11,344	11,305	2,088	60	-	24,797	325	-	25,122
Collective investment schemes	21,802	6,901	3,668	2	-	32,373	2	-	32,375
Total equity securities and holdings in collective investment schemes	33,146	18,206	5,756	62	-	57,170	327	-	57,497
Other financial investments^{note (iii)}	1,164	377	2,427	96	-	4,064	880	-	4,944
Total financial investments	85,833	23,663	33,037	249	-	142,782	1,207	-	143,989
Investment properties	-	-	35	-	-	35	-	-	35
Investments in joint ventures and associates accounted for using the equity method	-	-	1,715	295	-	2,010	-	-	2,010
Cash and cash equivalents	785	768	1,977	149	-	3,679	2,736	-	6,415
Reinsurers' share of insurance contract liabilities	2	-	2,748	-	-	2,750	-	-	2,750
Other assets ^{note (iv)}	1,557	172	9,298	709	(56)	11,680	3,419	(3,410)	11,689
Total assets	88,177	24,603	48,810	1,402	(56)	162,936	7,362	(3,410)	166,888
Shareholders' equity	-	-	13,308	1,043	-	14,351	1,758	-	16,109
Non-controlling interests	-	-	42	121	-	163	-	-	163
Total equity	-	-	13,350	1,164	-	14,514	1,758	-	16,272
Contract liabilities and unallocated surplus of with-profits funds	78,981	23,037	26,079	-	-	128,097	-	-	128,097
Core structural borrowings	-	-	-	-	-	-	4,266	-	4,266
Operational borrowings	128	3	89	12	-	232	622	-	854
Other liabilities ^{note (v)}	9,068	1,563	9,292	226	(56)	20,093	716	(3,410)	17,399
Total liabilities	88,177	24,603	35,460	238	(56)	148,422	5,604	(3,410)	150,616
Total equity and liabilities	88,177	24,603	48,810	1,402	(56)	162,936	7,362	(3,410)	166,888

Asia and Africa										
Insurance										
	With -profits note (i)	Unit- linked note (i)	Other note (i)	Eastspring	Elimina- tions	Total	US (discont'd) note (vii)	Unallocated to a segment	Elimina- tion of intra- group debtors and creditors	Group total
Debt securities:										
Sovereign debt										
Indonesia	362	589	568	1	–	1,520	–	–	–	1,520
Singapore	3,673	587	939	78	–	5,277	–	–	–	5,277
Thailand	–	–	1,847	16	–	1,863	–	–	–	1,863
United Kingdom	–	7	–	–	–	7	–	–	–	7
United States	26,233	45	2,917	–	–	29,195	–	–	–	29,195
Vietnam	–	17	2,799	–	–	2,816	–	–	–	2,816
Other (predominantly Asia)	1,951	692	3,790	18	–	6,451	–	–	–	6,451
Subtotal	32,219	1,937	12,860	113	–	47,129	–	–	–	47,129
Other government bonds										
AAA	1,630	83	276	–	–	1,989	–	–	–	1,989
AA+ to AA-	79	4	12	–	–	95	–	–	–	95
A+ to A-	641	115	298	–	–	1,054	–	–	–	1,054
BBB+ to BBB-	83	26	110	–	–	219	–	–	–	219
Below BBB- and unrated	85	13	369	–	–	467	–	–	–	467
Subtotal^{note(vi)}	2,518	241	1,065	–	–	3,824	–	–	–	3,824
Corporate bonds										
AAA	935	227	449	–	–	1,611	–	–	–	1,611
AA+ to AA-	1,950	393	1,777	–	–	4,120	–	–	–	4,120
A+ to A-	7,909	645	4,976	–	–	13,530	–	–	–	13,530
BBB+ to BBB-	9,324	1,281	4,938	–	–	15,543	–	–	–	15,543
Below BBB- and unrated	3,938	1,050	1,775	1	–	6,764	–	–	–	6,764
Subtotal^{note(vi)}	24,056	3,596	13,915	1	–	41,568	–	–	–	41,568
Asset-backed securities										
AAA	64	6	63	–	–	133	–	–	–	133
AA+ to AA-	1	1	–	–	–	2	–	–	–	2
A+ to A-	19	–	17	–	–	36	–	–	–	36
BBB+ to BBB-	16	–	10	–	–	26	–	–	–	26
Below BBB- and unrated	6	2	2	–	–	10	–	–	–	10
Subtotal^{note(vi)}	106	9	92	–	–	207	–	–	–	207
Total debt securities^{note(ii)}	58,899	5,783	27,932	114	–	92,728	–	–	–	92,728
Loans:										
Mortgage loans	–	–	154	–	–	154	–	–	–	154
Policy loans	1,302	–	353	–	–	1,655	–	–	–	1,655
Other loans	618	–	13	–	–	631	–	–	–	631
Total loans	1,920	–	520	–	–	2,440	–	–	–	2,440
Equity securities and holdings in collective investment schemes:										
Direct equities	10,506	13,007	2,541	85	–	26,139	–	–	–	26,139
Collective investment schemes	23,936	7,476	2,907	6	–	34,325	–	2	–	34,327
Total equity securities and holdings in collective investment schemes	34,442	20,483	5,448	91	–	60,464	–	2	–	60,466
Other financial investments^{note (iii)}	1,140	195	2,373	93	–	3,801	–	28	–	3,829
Total financial investments	96,401	26,461	36,273	298	–	159,433	–	30	–	159,463
Investment properties										
Investments in joint ventures and associates accounted for using the equity method	–	–	1,771	285	–	2,056	–	–	–	2,056
Cash and cash equivalents	945	1,000	1,406	177	–	3,528	–	2,767	–	6,295
Reinsurers' share of insurance contract liabilities	221	–	9,670	–	–	9,891	–	–	–	9,891
Other assets ^{note (iv)}	1,663	284	8,643	795	(67)	11,318	–	3,598	(3,289)	11,627
Assets held for distribution ^{note (vii)}	–	–	–	–	–	–	335,760	–	(10)	335,750
Total assets	99,230	27,745	57,802	1,555	(67)	186,265	335,760	6,395	(3,299)	525,121
Shareholders' equity										
Shareholders' equity	–	–	13,287	1,079	–	14,366	2,667	(1,320)	–	15,713
Non-controlling interests	–	–	40	137	–	177	333	–	–	510
Total equity	–	–	13,327	1,216	–	14,543	3,000	(1,320)	–	16,223
Contract liabilities and unallocated surplus of with-profits funds										
Contract liabilities and unallocated surplus of with-profits funds	89,243	25,615	36,224	–	–	151,082	–	–	–	151,082
Core structural borrowings	–	–	–	–	–	–	–	6,404	–	6,404
Operational borrowings	156	–	107	21	–	284	–	611	–	895
Other liabilities ^{note (v)}	9,831	2,130	8,144	318	(67)	20,356	–	700	(3,299)	17,757
Liabilities held for distribution ^{note (vii)}	–	–	–	–	–	–	332,760	–	–	332,760
Total liabilities	99,230	27,745	44,475	339	(67)	171,722	332,760	7,715	(3,299)	508,898
Total equity and liabilities	99,230	27,745	57,802	1,555	(67)	186,265	335,760	6,395	(3,299)	525,121

Asia and Africa									
Insurance									
	With -profits note (i)	Unit- linked note (i)	Other note (i)	Eastspring	Elimina- tions	Total	Unallocated to a segment	Elimination of intra-group debtors and creditors	Group total
Debt securities:									
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^{note(vi)}	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^{note(vi)}	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^{note(vi)}	137	9	105	–	–	251	–	–	251
Total debt securities^{note (ii)}	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 ^{note (iv)}	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 ^{note (v)}	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:

Continuing operations:	2022 \$m	2021 \$m	
	30 Jun	30 Jun	31 Dec
Debt securities held by consolidated investment funds	12,090	14,791	15,076

- (iii) Other financial investments comprise derivative assets and deposits.
- (iv) Of total 'Other assets' at 30 June 2022, there are:
- Property, plant and equipment (PPE) of \$405 million (30 June 2021: \$525 million; 31 December 2021: \$478 million). During half year 2022, the Group made additions of \$26 million of PPE (half year 2021: \$24 million; full year 2021: \$95 million), of which \$12 million relates to right-of-use assets (half year 2021: \$5 million; full year 2021: \$59 million).
 - Premiums receivable of \$718 million (30 June 2021: \$758 million; 31 December 2021: \$912 million), of which \$688 million (30 June 2021: \$715 million; 31 December 2021: \$872 million) are due within one year.
- (v) Within 'Other liabilities' at 30 June 2022 are accruals, deferred income and other liabilities of \$8,103 million (30 June 2021: \$8,017 million; 31 December 2021: \$7,983 million), of which \$5,737 million (30 June 2021: \$7,133 million; 31 December 2021: \$5,972 million) are due within one year.
- (vi) The credit ratings, information or data contained in this report which are attributed and specifically provided by Standard & Poor's, Moody's and Fitch Solutions and their respective affiliates and suppliers ('Content Providers') is referred to here as the 'Content'. Reproduction of any Content in any form is prohibited except with the prior written permission of the relevant party. The Content Providers do not guarantee the accuracy, adequacy, completeness, timeliness or availability of any Content and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such Content. The Content Providers expressly disclaim liability for any damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with any use of the Content. A reference to a particular investment or security, a rating or any observation concerning an investment that is part of the Content is not a recommendation to buy, sell or hold any such investment or security, nor does it address the suitability of an investment or security and should not be relied on as investment advice.
- (vii) Assets and liabilities held for distribution at 30 June 2021 related to the Group's US operations (Jackson) which were classified as discontinued operations in half year 2021 and demerged in September 2021, as discussed in note D1.2. The condensed consolidated statement of financial position at 30 June 2021 has been presented after the elimination of all intragroup balances between the continuing and discontinued US operations.

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 current market bid 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 discount rate used is updated for the market rate of interest where applicable.

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. For further detail on the valuation approach for level 2 fair valued assets and liabilities, refer to note C2.1 of the Group IFRS financial statements for the year ended 31 December 2021.

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

(a) 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 at 30 June 2022, except for \$325 million of financial assets classified as available-for-sale (30 June 2021: nil; 31 December 2021: \$909 million). In the current year all of this related to the Group's retained interest in Jackson's equity securities (30 June 2021: nil; 31 December 2021: \$683 million). All assets and liabilities held at fair value are measured on a recurring basis. As of 30 June 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

	30 Jun 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	–	471	4	475
Equity securities and holdings in collective investment schemes	49,727	7,193	577	57,497
Debt securities	57,125	21,954	40	79,119
Derivative assets	48	134	–	182
Derivative liabilities	(461)	(310)	–	(771)
Total financial investments, net of derivative liabilities	106,439	29,442	621	136,502
Investment contract liabilities without discretionary participation features	–	(727)	–	(727)
Net asset value attributable to unit holders of consolidated investment funds	(4,546)	(3)	–	(4,549)
Total financial instruments at fair value	101,893	28,712	621	131,226
Percentage of total (%)	78%	22%	0%	100%

Analysed by business type:

Financial investments, net of derivative liabilities at fair value:

With-profits	66,775	15,612	503	82,890
Unit-linked	21,201	2,084	4	23,289
Non-linked shareholder-backed business	18,463	11,746	114	30,323
Total financial investments net of derivative liabilities, at fair value	106,439	29,442	621	136,502
Percentage of total (%)	78%	22%	0%	100%

Total financial investments net of derivative liabilities, at fair value	106,439	29,442	621	136,502
Other financial liabilities at fair value	(4,546)	(730)	–	(5,276)
Total financial instruments at fair value	101,893	28,712	621	131,226

	30 Jun 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)	
Continuing operations:				
Loans	–	560	5	565
Equity securities and holdings in collective investment schemes	52,299	7,695	472	60,466
Debt securities	75,221	17,475	32	92,728
Derivative assets	391	94	–	485
Derivative liabilities	(192)	(220)	–	(412)
Total financial investments, net of derivative liabilities	127,719	25,604	509	153,832
Investment contract liabilities without discretionary participation features	–	(825)	–	(825)
Net asset value attributable to unit holders of consolidated investment funds	(5,770)	–	–	(5,770)
Total financial instruments at fair value	121,949	24,779	509	147,237
Percentage of total (%)	83%	17%	0%	100%

Analysed by business type:

Financial investments net of derivative liabilities, at fair value

With-profits	80,526	12,874	415	93,815
Unit-linked	25,279	985	–	26,264
Non-linked shareholder-backed business	21,914	11,745	94	33,753
Total financial investments net of derivative liabilities, at fair value	127,719	25,604	509	153,832
Percentage of total (%)	83%	17%	0%	100%

Total financial investments net of derivative liabilities, at fair value	127,719	25,604	509	153,832
Other financial liabilities at fair value	(5,770)	(825)	–	(6,595)
Total financial instruments at fair value	121,949	24,779	509	147,237

31 Dec 2021 \$m

	Level 1 Quoted prices (unadjusted) in active markets	Level 2 Valuation based on significant observable market inputs note (i)	Level 3 Valuation based on significant unobservable market inputs note (ii)	Total
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 \$21,954 million at 30 June 2022, (30 June 2021: \$17,475 million; 31 December 2021: \$22,987 million), \$33 million (30 June 2021: \$163 million; 31 December 2021: \$24 million) are valued internally.
- (ii) At 30 June 2022, the Group held \$621 million (30 June 2021: \$509 million; 31 December 2021: \$640 million) of net financial instruments at fair value within level 3. This represents less than 0.5 per cent of the total fair valued financial assets, net of financial liabilities, for all periods and comprises the following:
- Equity securities and holdings in collective investment schemes of \$577 million (30 June 2021: \$472 million; 31 December 2021: \$577 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 (30 June 2021: \$4 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 \$44 million (30 June 2021: \$37 million; 31 December 2021: \$63 million).

Of the net financial instruments of \$621 million at 30 June 2022 (30 June 2021: \$509 million; 31 December 2021: \$640 million) referred to above:

- A net asset of \$507 million (30 June 2021: \$415 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 \$114 million (30 June 2021: \$94 million; 31 December 2021: \$129 million) is held to support non-linked shareholder-backed business, of which \$112 million (30 June 2021: \$90 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 (30 June 2021: \$(9) million; 31 December 2021: \$(26) 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.

(b) Transfers into and transfers out of levels

The Group's policy is to recognise transfers into and out of levels as of the end of each reporting period except for material transfers which are recognised as of the date of the event or change in circumstances that caused the transfer. Transfers are deemed to have occurred when there is a material change in the observed valuation inputs or a change in the level of trading activities of the securities.

During the first half of 2022, the transfers between levels within the portfolios were primarily transfers from level 1 to level 2 of \$3,867 million and transfers from level 2 to level 1 of \$1,603 million. These transfers primarily reflect the change in the observed valuation inputs of equity securities and debt securities and, in certain cases, the change in the level of trading activities of the securities. There were transfers from level 3 to level 2 of \$15 million in the period.

Reconciliation of movements in level 3 assets and liabilities measured at fair value

The following table reconciles the value of level 3 fair valued assets and liabilities at the beginning of the period to that presented at the end of the period.

Total investment return recorded in the income statement represents interest and dividend income, realised gains and losses, unrealised gains and losses on the assets classified at fair value through profit and loss and foreign exchange movements on an individual entity's overseas investments. Total gains and losses recorded in other comprehensive income from continuing operations comprises the translation of investments into the Group's presentational currency of US dollars.

	Half year 2022 \$m			
	Loans	Equity securities and holdings in collective investment schemes	Debt securities	Group total
Balance at beginning of period	5	577	58	640
Total losses in income statement ^{note}	(1)	(47)	(1)	(49)
Total losses recorded in other comprehensive income	–	(14)	(2)	(16)
Purchases and other additions	–	61	–	61
Transfers out of level 3	–	–	(15)	(15)
Balance at end of period	4	577	40	621

	Half year 2021 \$m			
	Loans	Equity securities and holdings in collective investment schemes	Debt securities	Group total
Continuing operations				
Balance at beginning of period	6	445	33	484
Total (losses) gains in income statement ^{note}	(1)	21	–	20
Total losses recorded in other comprehensive income	–	(5)	(1)	(6)
Purchases and other additions	–	11	–	11
Balance at end of period	5	472	32	509

	Full year 2021 \$m			
	Loans	Equity securities and holdings in collective investment schemes	Debt securities	Group total
Continuing operations				
Balance at beginning of year	6	445	33	484
Total (losses) gains in income statement ^{note}	(1)	6	(3)	2
Total losses recorded in other comprehensive income	–	(5)	(2)	(7)
Purchases and other additions	–	143	–	143
Transfers (out of) into level 3	–	(12)	30	18
Balance at end of year	5	577	58	640

Note

Of the total net (losses) gains in the income statement of \$(49) million at half year 2022 (half year 2021: \$20 million; full year 2021: \$2 million), \$(26) million (half year 2021: \$20 million; full year 2021: \$2 million) relates to net unrealised gains and losses of financial instruments still held at the end of the period, which can be analysed as follows:

	2022 \$m		2021 \$m	
	Half year	Full year	Half year	Full year
Loans	(1)	(1)	(1)	(1)
Equity securities and holdings in collective investment schemes	(24)	6	21	6
Debt securities	(1)	(3)	–	(3)
Total net (losses) gains	(26)	2	20	2

(c) Assets and liabilities at amortised cost and their fair value

The table below shows the financial assets and liabilities carried at amortised cost on the statement of financial position and their fair value. Cash deposits, accrued income, other debtors, accruals, deferred income and other liabilities are excluded from the analysis below, as these are carried at amortised cost which approximates fair value. The carrying value of investment contracts with discretionary participation features is on an IFRS 4 basis, which is also excluded from the analysis below, as it is impractical to determine the fair value of these contracts due to the lack of a reliable basis to measure participation features.

	2022 \$m		2021 \$m			
	30 Jun		30 Jun		31 Dec	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Assets:						
Loans	1,954	2,103	1,875	2,245	1,941	2,152
Liabilities:						
Core structural borrowings of shareholder-financed businesses	(4,266)	(4,073)	(6,404)	(7,029)	(6,127)	(6,565)
Operational borrowings (excluding lease liabilities)	(568)	(568)	(500)	(500)	(514)	(514)
Obligations under funding, securities lending and sale and repurchase agreements	(799)	(799)	(396)	(396)	(223)	(223)
Total net financial assets (liabilities) at amortised cost	(3,679)	(3,337)	(5,425)	(5,680)	(4,923)	(5,150)

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 period. The items are shown gross of external reinsurance.

	Half year 2022 \$m			Total
	With-profits business	Shareholder-backed business Unit-linked liabilities	Other business	
At beginning of period	94,002	34,756	48,496	177,254
<i>Comprising:</i>				
<i>Policyholder liabilities on the balance sheet</i>	88,618	25,651	37,646	151,915
<i>Unallocated surplus of with-profits funds on the balance sheet</i> ^{note (i)}	5,384	–	–	5,384
<i>Group's share of policyholder liabilities relating to joint ventures and associates</i> ^{note (ii)}	–	9,105	10,850	19,955
Premiums: ^{note (iii)}				
New business	1,456	1,231	1,607	4,294
In-force	2,867	1,219	2,694	6,780
	4,323	2,450	4,301	11,074
Surrenders ^{notes (iii)(iv)}	(558)	(1,426)	(293)	(2,277)
Maturities/deaths/other claim events	(993)	(127)	(842)	(1,962)
Net flows	2,772	897	3,166	6,835
Shareholders' transfers post tax	(74)	–	–	(74)
Investment-related items and other movements ^{note (v)}	(16,422)	(2,396)	(12,391)	(31,209)
Foreign exchange translation differences ^{note (vi)}	(1,297)	(1,522)	(1,563)	(4,382)
At end of period	78,981	31,735	37,708	148,424
<i>Comprising:</i>				
<i>Policyholder liabilities on the balance sheet</i>	74,413	23,037	26,079	123,529
<i>Unallocated surplus of with-profits funds on the balance sheet</i> ^{note (i)}	4,568	–	–	4,568
<i>Group's share of policyholder liabilities relating to joint ventures and associates</i> ^{note (ii)}	–	8,698	11,629	20,327
	Half year 2021 \$m			Total
	With-profits business	Shareholder-backed business Unit-linked liabilities	Other business	Asia and Africa
At beginning of period	86,410	32,506	46,639	165,555
<i>Comprising:</i>				
<i>Policyholder liabilities on the balance sheet</i>	81,193	25,433	38,107	144,733
<i>Unallocated surplus of with-profits funds on the balance sheet</i> ^{note (i)}	5,217	–	–	5,217
<i>Group's share of policyholder liabilities relating to joint ventures and associates</i> ^{note (ii)}	–	7,073	8,532	15,605
Premiums: ^{note (iii)}				
New business	900	1,237	942	3,079
In-force	3,617	1,211	2,469	7,297
	4,517	2,448	3,411	10,376
Surrenders ^{notes (iii)(iv)}	(393)	(1,724)	(410)	(2,527)
Maturities/deaths/other claim events	(852)	(101)	(505)	(1,458)
Net flows	3,272	623	2,496	6,391
Shareholders' transfers post-tax	(62)	–	–	(62)
Investment-related items and other movements ^{note (v)}	201	997	(2,994)	(1,796)
Foreign exchange translation differences ^{note (vi)}	(578)	(532)	(230)	(1,340)
At end of period	89,243	33,594	45,911	168,748
<i>Comprising:</i>				
<i>Policyholder liabilities on the balance sheet</i>	82,970	25,615	36,224	144,809
<i>Unallocated surplus of with-profits funds on the balance sheet</i> ^{note (i)}	6,273	–	–	6,273
<i>Group's share of policyholder liabilities relating to joint ventures and associates</i> ^{note (ii)}	–	7,979	9,687	17,666
Average policyholder liability balances ^{note (vii)}				
Half year 2022	81,516	33,245	43,102	157,863
Half year 2021	82,082	33,050	46,275	161,407

Notes

- (i) 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.
- (ii) 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) was 2.1 per cent in half year 2022 (half year 2021: 2.7 per cent).
- (v) Investment-related items and other movements in the first half of 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. 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 period have been translated at the average exchange rates for the period ended 30 June 2022 and 2021. The closing balance has been translated at the closing spot rates as at 30 June 2022 and 2021. 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 corporate transactions arising in the period, and exclude unallocated surplus of with-profits funds.

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

Further analysis of the movement in the period 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:

	Half year 2022 \$m		
	Contract liabilities	Reinsurers' share of insurance contract liabilities	Unallocated surplus of with-profits funds
At beginning of period	151,915	(9,753)	5,384
(Income) expense included in the income statement ^{note (i)}	(25,193)	6,942	(779)
Other movements ^{note (ii)}	69	–	–
Foreign exchange translation differences	(3,262)	61	(37)
At end of period	123,529	(2,750)	4,568

	Half year 2021 \$m		
	Contract liabilities	Reinsurers' share of insurance contract liabilities	Unallocated surplus of with-profits funds
At beginning of period	441,246	(46,595)	5,217
Reclassification of US operations as held for distribution	(296,513)	35,232	–
Expense included in the income statement ^{note (i)}	1,354	1,450	1,070
Other movements ^{note (ii)}	25	–	–
Foreign exchange translation differences	(1,303)	22	(14)
At end of period	144,809	(9,891)	6,273

Notes

- (i) The total charge for benefit and claims in half year 2022 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 \$(4,406) million in the period (half year 2021: \$(4,143) million) and claim amounts attributable to reinsurers of \$202 million (half year 2021: \$269 million).
- (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.

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.

	Half year 2022 \$m					
	Hong Kong	Indonesia	Malaysia	Singapore	Growth markets and other	Total segment
Claims incurred, net of reinsurance	(894)	(609)	(533)	(1,345)	(887)	(4,268)
Decrease in policyholder liabilities, net of reinsurance	13,090	187	157	2,865	2,016	18,315
Movement in unallocated surplus of with-profits funds	660	–	119	–	–	779
Benefits and claims and movement in unallocated surplus, net of reinsurance	12,856	(422)	(257)	1,520	1,129	14,826

	Half year 2021 \$m					
	Hong Kong	Indonesia	Malaysia	Singapore	Growth markets and other	Total segment
Claims incurred, net of reinsurance	(818)	(602)	(482)	(1,346)	(755)	(4,003)
(Increase) decrease in policyholder liabilities, net of reinsurance	(369)	266	(68)	(2,197)	(307)	(2,675)
Movement in unallocated surplus of with-profits funds	(1,121)	–	51	–	–	(1,070)
Benefits and claims and movement in unallocated surplus, net of reinsurance	(2,308)	(336)	(499)	(3,543)	(1,062)	(7,748)

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 at 30 June 2022 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 the first half of 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 30 June 2022 represents amounts allocated to businesses in Asia and Africa in respect of both acquired asset management and life businesses. There has been no impairment as at 30 June 2022.

	2022 \$m	2021 \$m	
	30 Jun	30 Jun	31 Dec
Carrying value at beginning of period	907	961	961
Exchange differences	(36)	(35)	(54)
Carrying value at end of period	871	926	907

C4.2 Deferred acquisition costs and other intangible assets

	2022 \$m	2021 \$m	
	30 Jun	30 Jun	31 Dec
Shareholder-backed business:			
DAC related to insurance contracts as classified under IFRS 4	2,845	2,468	2,776
DAC related to investment management contracts, including life assurance contracts classified as financial instruments and investment management contracts under IFRS 4	39	37	39
DAC related to insurance and investment contracts	2,884	2,505	2,815
Distribution rights	3,626	3,765	3,782
Present value of acquired in-force policies for insurance contracts as classified under IFRS 4	22	31	28
Other intangibles	180	150	184
Present value of acquired in-force and other intangibles	3,828	3,946	3,994
Total of DAC and other intangible assets attributable to shareholders ^{note (i)}	6,712	6,451	6,809
Other intangible assets, including computer software, attributable to with-profits funds	38	74	49
Total of deferred acquisition costs and other intangible assets	6,750	6,525	6,858

Notes

(i) Movement in DAC and other intangible assets attributable to shareholders is shown below:

	2022 \$m				2021 \$m	
	DAC	Distribution rights note (ii)	Other intangibles note (iii)	Half year Total	Half year Total	Full year Total
Balance at beginning of period	2,815	3,782	212	6,809	20,275	20,275
Removal of discontinued US operations	-	-	-	-	(13,881)	(13,881)
Additions	426	44	27	497	475	1,185
Amortisation to the income statement	(249)	(143)	(27)	(419)	(331)	(651)
Disposals and transfers	-	-	(3)	(3)	(3)	(7)
Exchange differences and other movements	(108)	(57)	(7)	(172)	(84)	(112)
Balance at end of period	2,884	3,626	202	6,712	6,451	6,809

- (ii) 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.
- (iii) Other intangibles comprise present value of acquired in-force (PVIF) related to insurance contracts and other intangible assets such as software rights. Software rights include additions of \$17 million, amortisation of \$(13) million, disposals of \$(2) million, foreign exchange of \$(6) million and closing balance at 30 June 2022 of \$110 million (30 June 2021: \$81 million; 31 December 2021: \$114 million).

C5 Borrowings

C5.1 Core structural borrowings of shareholder-financed businesses

	2022 \$m	2021 \$m	
	30 Jun	30 Jun	31 Dec
Subordinated debt:			
US\$250m 6.75% Notes ^{note (i)}	–	250	–
US\$300m 6.5% Notes ^{note (i)}	–	300	–
US\$700m 5.25% Notes ^{note (i)}	–	700	–
US\$1,000m 5.25% Notes ^{note (i)}	–	1,000	1,000
US\$725m 4.375% Notes ^{note (iii)}	–	725	725
US\$750m 4.875% Notes	749	747	748
€20m Medium Term Notes 2023	21	24	23
£435m 6.125% Notes 2031	524	596	584
US\$1,000m 2.95% Notes 2033 ^{note (ii)}	995	–	995
Senior debt: ^{note (iv)}			
£300m 6.875% Notes 2023	363	411	404
£250m 5.875% Notes 2029	282	317	313
\$1,000m 3.125% Notes 2030	986	984	985
\$350m 3.625% Notes 2032 ^{note (v)}	346	–	–
Bank loans:			
\$350m Loan 2024 ^{note (v)}	–	350	350
Total core structural borrowings of shareholder-financed businesses	4,266	6,404	6,127

Notes

- (i) The US\$250 million, US\$300 million, US\$700 million notes were redeemed on 23 December 2021 and the US\$1,000 million notes were redeemed on 20 January 2022 using the proceeds from the issuance of ordinary shares in October 2021.
- (ii) In November 2021, the Company issued US\$1,000 million 2.95 per cent subordinated debt maturing on 3 November 2033 with proceeds, net of costs, of \$995 million.
- (iii) The US\$725 million note was redeemed on 20 January 2022 using the proceeds from the US\$1,000 million subordinated debt issued in November 2021.
- (iv) The senior debt ranks above subordinated debt in the event of liquidation.
- (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 \$346 million, which was used to redeem the US\$350 million bank loan in May 2022.

C5.2 Operational borrowings

	2022 \$m	2021 \$m	
	30 Jun	30 Jun	31 Dec
Shareholder-financed business:			
Borrowings in respect of short-term fixed income securities programmes (commercial paper)	544	500	500
Lease liabilities under IFRS 16	177	239	209
Other borrowings	5	–	10
Operational borrowings attributable to shareholder-financed businesses	726	739	719
With profits business:			
Lease liabilities under IFRS 16	109	156	138
Other borrowings	19	–	4
Operational borrowings attributable to with-profits businesses	128	156	142
Total operational borrowings	854	895	861

C6 Sensitivity analysis to key market risks

The Group's risk framework and the management of risks attaching to the Group's 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 following sections set out the sensitivity of the Group's profit or loss and shareholders' equity to instantaneous changes in interest rates and equity levels, which are then assumed to remain unchanged for the long term. Further information of the Group's sensitivity to key risks was set out in the Group's financial statements for the year ended 31 December 2021.

C6.1 Insurance operations

The table below shows the sensitivity of shareholders' equity as at 30 June 2022, 30 June 2021 and 31 December 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. These sensitivities do not include credit risk sensitivities, such as movements in credit spreads, and hence the valuation of debt securities and policyholder liabilities. 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	2022 \$m	2021 \$m	
	30 Jun	30 Jun	31 Dec
Shareholders' equity of insurance operations	13,308	13,287	14,289
Sensitivity to key market risks: ^{note}			
Interest rates and consequential effects – 1% increase	(680)	(533)	(796)
Interest rates and consequential effects – 0.5% decrease	121	(381)	137
Equity/property market values – 10% rise	305	387	372
Equity/property market values – 20% fall	(750)	(803)	(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. In the context of the Group, the results of the Africa insurance operations are not materially impacted by interest rate or equity rate changes.

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:

- Certain businesses (Taiwan and India) 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 reflects 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.

Following a general increase in interest rates over 2021 and first half of 2022, under a 0.5% decrease interest rate scenario for most operations asset gains exceed the increases in liabilities resulting in an overall small positive impact of an instantaneous decrease of rates.

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.

C6.2 Eastspring and central operations

The profit for the period 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 C.1). Eastspring's profit will therefore have some exposure to the market movements of these investments.

At 30 June 2022, the Group's central operations held a 14.3 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 \$325 million at 30 June 2022 (31 December 2021: \$683 million). If the value of these securities decreased by 20 per cent, the change in valuation would be \$(65) 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 Deferred tax assets and liabilities

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

	Half year 2022 \$m			
	Balance at beginning of period	Movement in income statement	Other movements including foreign exchange movements	Balance at end of period
Deferred tax assets				
Unrealised losses or gains on investments	3	173	(7)	169
Balances relating to investment and insurance contracts	34	1	(34)	1
Short-term temporary differences	162	32	(10)	184
Unused tax losses	67	(41)	(2)	24
Total deferred tax assets	266	165	(53)	378

Deferred tax liabilities				
Unrealised losses or gains on investments	(242)	99	6	(137)
Balances relating to investment and insurance contracts	(2,125)	(52)	113	(2,064)
Short-term temporary differences	(495)	(25)	22	(498)
Total deferred tax liabilities	(2,862)	22	141	(2,699)

	Half year 2021 \$m				
	Balance at beginning of period	Removal of discontinued US operations	Movement in income statement	Other movements including foreign exchange movements	Balance at end of period
Deferred tax assets					
Unrealised losses or gains on investments	–	–	1	–	1
Balances relating to investment and insurance contracts	87	–	(1)	(37)	49
Short-term temporary differences	4,662	(4,513)	5	(3)	151
Unused tax losses	109	(29)	16	1	97
Total deferred tax assets	4,858	(4,542)	21	(39)	298

Deferred tax liabilities					
Unrealised losses or gains on investments	(1,063)	691	73	2	(297)
Balances relating to investment and insurance contracts	(1,765)	–	(322)	71	(2,016)
Short-term temporary differences	(3,247)	2,832	(14)	7	(422)
Total deferred tax liabilities	(6,075)	3,523	(263)	80	(2,735)

	Full year 2021 \$m				
	Balance at beginning of year	Removal of discontinued US operations	Movement in income statement	Other movements including foreign exchange movements	Balance at end of year
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

	30 Jun 2022			30 Jun 2021			31 Dec 2021		
	Number of ordinary shares	Share capital \$m	Share premium \$m	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 beginning of period	2,746,412,265	182	5,010	2,609,489,702	173	2,637	2,609,489,702	173	2,637
Shares issued under share-based schemes	2,902,591	-	-	6,121,839	-	8	6,142,213	-	8
Shares issued under Hong Kong public offer and international placing in 2021 ^{note}	-	-	-	-	-	-	130,780,350	9	2,365
Balance at end of period	2,749,314,856	182	5,010	2,615,611,541	173	2,645	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\$2.3 billion in total in December 2021 and 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. Further details are provided in note C8 of the Group's consolidated financial statements for the year ended 31 December 2021.

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

	Number of shares to subscribe for	Share price range		Exercisable by year
		from	to	
30 Jun 2022	1,734,638	964p	1,455p	2027
30 Jun 2021	1,774,131	964p	1,455p	2026
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 \$271 million at 30 June 2022 (30 June 2021: \$261 million; 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 30 June 2022, 12.7 million (30 June 2021: 11.4 million; 31 December 2021: 11.7 million) Prudential plc shares with a market value of \$157 million (30 June 2021: \$217 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 period was 12.7 million which was in June 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 purchased (in millions)	Cost \$m
Half year 2022	5.2	69.9
Half year 2021	2.8	60.1
Full year 2021	3.8	81.2

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.

D Other information

D1 Corporate transactions

D1.1 Gain (loss) attaching to corporate transactions

	2022 \$m	2021 \$m	
	Half year	Half year	Full year
Gain (loss) attaching to corporate transactions as shown separately on the condensed consolidated income statement ^{note}	62	(56)	(35)
Loss arising on reinsurance transaction undertaken by the Hong Kong business	(35)	(38)	(59)
Total gain (loss) attaching to corporate transactions^{note B1.1}	27	(94)	(94)

Note

The gain (loss) attaching to corporate transactions includes a gain of \$60 million (half year 2021: nil; full year 2021: \$23 million) from the sale of shares relating to the Group's retained interest in Jackson post the demerger. Corporate transactions in 2021 also included amounts incurred by Prudential plc (half year 2021: \$(28) million; full year 2021: \$(30) million) in connection with the separation of Jackson and \$(28) million of payment for the termination of loss of office made to the former chief executive of Jackson.

D1.2 Discontinued US operations

On 13 September 2021, the Group completed the separation of its US operations (Jackson) through a demerger, whereby the Group retained a 19.9 per cent non-controlling voting interest (19.7 per cent economic interest). 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. In December 2021, Jackson repurchased 2.2 million shares of its Class A common stock from Prudential, reducing Prudential's remaining economic interest in Jackson to 18.4 per cent as of 31 December 2021 (18.5 per cent voting interest). During the first six months of 2022, further transactions have reduced the Group's holding to 14.3 per cent economic interest (14.3 per cent voting interest) at 30 June 2022, realising a gain of \$60 million. The fair value of the Group's holding at 30 June 2022 was \$325 million.

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

(a) Income statement

	2021 \$m	
	Half year	Full year
Total revenue, net of reinsurance	35,379	45,972
Total charge, net of reinsurance	(33,209)	(43,655)
Profit before tax	2,170	2,317
Tax charge	(370)	(363)
Profit after tax	1,800	1,954
Remeasurement to fair value ^{note (i)}	(7,507)	(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 period	(5,707)	(5,027)
Attributable to:		
Equity holders of the Company	(5,073)	(4,234)
Non-controlling interests	(634)	(793)
Loss for the period	(5,707)	(5,027)

Notes

- (i) The loss on remeasurement to fair value on demerger was recognised in accordance with IFRIC 17, 'Distribution of non-cash assets to owners' as described above.
- (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	
	Half year	Full year
Loss for the period	(5,707)	(5,027)
Other comprehensive loss:		
Valuation movements on available-for-sale debt securities, net of related tax and change in DAC	(867)	(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 period	(867)	(2,041)
Total comprehensive loss for the period	(6,574)	(7,068)
Attributable to:		
Equity holders of the Company	(5,844)	(6,283)
Non-controlling interests	(730)	(785)
Total comprehensive loss for the period	(6,574)	(7,068)

(c) Cash flows

	2021 \$m	
	Half year	Full year
Net cash flows from operating activities	(442)	(423)
Net cash flows from financing activities ^{note}	(18)	2,329
Cash divested upon demerger	–	(3,527)
Net decrease in cash and cash equivalents	(460)	(1,621)
Cash and cash equivalents at beginning of period	1,621	1,621
Cash and cash equivalents at end of period	1,161	–

Note

Financing activities in full year 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.

There have been no material changes to the Group's contingencies and related obligations in the six months ended 30 June 2022.

D3 Post balance sheet events**First interim ordinary dividend**

The 2022 first interim ordinary dividend approved by the Board of Directors after 30 June 2022 is as described in note B5.

D4 Related party transactions

There were no transactions with related parties during the six months ended 30 June 2022 which have had a material effect on the results or financial position of the Group.

The nature of the related party transactions of the Group has not changed from those described in note D4 to the Group's consolidated financial statements for the year ended 31 December 2021.

Statement of Directors' Responsibilities

The Directors (who are listed below) are responsible for preparing the Half Year Financial Report in accordance with applicable law and regulations.

Accordingly, the Directors confirm that to the best of their knowledge:

- the condensed consolidated financial statements have been prepared in accordance with IAS 34, *'Interim Financial Reporting'*, as adopted for use in the UK;
- the Half Year Financial Report includes a fair review of information required by:
 - (a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the six months ended 30 June 2022, and their impact on the condensed consolidated financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and
 - (b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place during the six months ended 30 June 2022 and that have materially affected the financial position or performance of the Group during that period; and any changes in the related party transactions described in the Group's consolidated financial statements for the year ended 31 December 2021 that could do so.

Prudential plc Board of Directors:

Chair

Shriti Vadera

Executive Directors

Mark FitzPatrick CA

James Turner FCA FCSI FRM

Independent Non-executive Directors

Lord Remnant CBE FCA

Jeremy Anderson CBE

Chua Sock Koong

David Law ACA

Ming Lu

George Sartorel

Thomas Watjen

Jeanette Wong

Amy Yip

9 August 2022

Independent Review Report to Prudential plc

Conclusion

We have been engaged by Prudential plc ('the Company' or 'the Group') to review the condensed set of consolidated financial statements in the Half Year Financial Report for the six months ended 30 June 2022 which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Cash Flows and the related explanatory notes (collectively the 'condensed set of financial statements').

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Half Year Financial Report for the six months ended 30 June 2022 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted for use in the UK and the Disclosure Guidance and Transparency Rules ('the DTR') of the UK's Financial Conduct Authority ('the UK FCA').

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity ('ISRE (UK) 2410') issued for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the Half Year Financial Report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention that causes us to believe that the Directors have inappropriately adopted the going concern basis of accounting, or that the Directors have identified material uncertainties relating to going concern that have not been appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the Group to cease to continue as a going concern, and the above conclusions are not a guarantee that the Group will continue in operation.

Directors' responsibilities

The Half Year Financial Report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Half Year Financial Report in accordance with the DTR of the UK FCA.

As disclosed in note A1, the annual financial statements of the Group are prepared in accordance with UK-adopted international accounting standards.

The Directors are responsible for preparing the condensed set of financial statements included in the Half Year Financial Report in accordance with IAS 34 as adopted for use in the UK.

In preparing the condensed set of financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the Half Year Financial Report based on our review. Our conclusion, including our conclusion relating to going concern, is based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion section of this report.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the DTR of the UK FCA. Our review of the condensed set of financial statements has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Stuart Crisp

for and on behalf of KPMG LLP

Chartered Accountants

15 Canada Square

London

E14 5GL

9 August 2022

European Embedded Value (EEV) financial results

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Description of EEV basis reporting

The EEV financial 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 financial 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

	Half year 2022	Half year 2021			
	\$m	AER		CER	
		\$m	% change	\$m	% change
Continuing operations:					
New business profit ^{note (ii)}	1,098	1,176	(7)%	1,155	(5)%
Annual premium equivalent (APE) ^{note (ii)}	2,213	2,083	6%	2,036	9%
New business margin (APE) (%)	50%	56%	(6)%	57%	(7)%
Present value of new business premiums (PVNBP)	11,728	11,380	3%	11,147	5%
Operating free surplus generated ^{notes (ii)(iii)}	1,224	1,112	10%	1,089	12%
EEV operating profit ^{notes (ii)(iv)}	1,806	1,749	3%	1,710	6%
EEV operating profit, net of non-controlling interests	1,796	1,735	4%	1,690	6%
Operating return on average EEV shareholders' equity, net of non-controlling interests (%)	8%	8%			
Closing EEV shareholders' equity, net of non-controlling interests	42,300	43,162	(2)%	41,904	1%
Closing EEV shareholders' equity, net of non-controlling interests per share (in cents)	1,539¢	1,650¢	(7)%	1,602¢	(4)%

Notes

- (i) The half year 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 judgments 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. The Group's EEV has been prepared in accordance with the relevant regulatory regimes in place at 30 June 2022. This includes adoption of the new Hong Kong Risk-based Capital Regime with effect from 1 January 2022 as described further below and in note 7.

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 4.

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 30 June 2022, the TVOG is \$(368) million (31 December 2021: \$(784) million). The magnitude of the TVOG at 30 June 2022 would be approximately equivalent to a circa seven basis points (31 December 2021: 10 basis points) 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 56 per cent of the value of in-force business and 42 per cent of new business profit, the major sources of shareholder profits are underwriting profits or fixed shareholder charges which have very 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 funds in some business units (representing 22 per cent of the value of in-force and 19 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, 78 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 15 per cent of the value of in-force and 12 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 (7 per cent of the value in-force and 27 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 30 June 2022, the total allowance for non-market risk is equivalent to a \$(2.9) billion (31 December 2021: \$(3.7) billion) reduction, or around (8) per cent (31 December 2021: (8) per cent) of the embedded

value. The reduction in the allowance for non-market risk in the period has been compensated by the effect of an increase in the discount rate applied to future expected profits.

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 to early adopt the Hong Kong Risk-based Capital (HK RBC) regime with effect from 1 January 2022. This impacts PHKL's (and consequentially Group's) capital position as described in note I(i) within additional 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 I(i) of the additional financial information.

Movement in Group EEV Shareholders' Equity

		2022 \$m		2021 \$m		
		Half year		Half year	Full year	
		Insurance and asset management operations	Other (central) operations	Group total	Group total	Group total
Continuing operations:						
New business profit	1	1,098	–	1,098	1,176	2,526
Profit from in-force business	2	1,001	–	1,001	857	1,630
Long-term business		2,099	–	2,099	2,033	4,156
Asset management		117	–	117	147	284
Operating profit from long-term and asset management businesses		2,216	–	2,216	2,180	4,440
Other income (expenditure)	4	–	(263)	(263)	(359)	(723)
Operating profit (loss) before restructuring and IFRS 17 implementation costs		2,216	(263)	1,953	1,821	3,717
Restructuring and IFRS 17 implementation costs		(37)	(110)	(147)	(72)	(174)
Operating profit (loss) for the period		2,179	(373)	1,806	1,749	3,543
Short-term fluctuations in investment returns	2	(5,208)	7	(5,201)	(870)	(1,040)
Effect of changes in economic assumptions	2	(806)	–	(806)	914	412
Profit (loss) attaching to corporate transactions		–	62	62	(56)	(35)
Mark-to-market value movements on core structural borrowings	5	–	631	631	170	357
Non-operating results		(6,014)	700	(5,314)	158	(306)
(Loss) profit from continuing operations		(3,835)	327	(3,508)	1,907	3,237
Loss from discontinued US operations ^{note (i)}		–	–	–	(10,319)	(10,852)
(Loss) profit for the period		(3,835)	327	(3,508)	(8,412)	(7,615)
Non-controlling interests share of loss (profit) from continuing operations		(10)	–	(10)	(20)	(40)
Non-controlling interests share of loss from discontinued US operations		–	–	–	1,145	1,205
(Loss) profit for the period attributable to equity holders of the Company		(3,845)	327	(3,518)	(7,287)	(6,450)
Equity items from continuing operations:						
Foreign exchange movements on operations		(1,215)	17	(1,198)	(425)	(460)
Intra-group dividends and investment in operations ^{note (ii)}		(968)	968	–	–	–
Demerger dividend in specie from Jackson		–	–	–	–	(1,735)
Other external dividends		–	(320)	(320)	(283)	(421)
New share capital subscribed ^{note (iii)}		–	–	–	–	2,382
Other movements ^{note (iv)}		34	(282)	(248)	57	238
Equity items from discontinued US operations net of non-controlling interest		–	–	–	(240)	(206)
Net (decrease) increase in shareholders' equity		(5,994)	710	(5,284)	(8,178)	(6,652)
Shareholders' equity at beginning of period (as previously disclosed)		46,114	1,241	47,355	54,007	54,007
Effect of HK RBC		229	–	229	–	–
Shareholders' equity at beginning of period after adoption of HK RBC		46,343	1,241	47,584	54,007	54,007
Shareholders' equity at end of period		40,349	1,951	42,300	45,829	47,355
Contribution to Group EEV:						
At end of period:						
Continuing operations:						
Long-term business	2	38,965	–	38,965	43,682	44,646
Asset management and other	4	635	1,951	2,586	(1,308)	1,931
Shareholders' equity, excluding goodwill attributable to equity holders		39,600	1,951	41,551	42,374	46,577
Goodwill attributable to equity holders		749	–	749	788	778
Total continuing operations	6	40,349	1,951	42,300	43,162	47,355
Discontinued US operations		–	–	–	2,667	–
Shareholders' equity at end of period		–	–	–	45,829	47,355
At beginning of period:						
Continuing operations:						
Long-term business	2	44,646	–	44,646	42,861	42,861
Asset management and other	4	690	1,241	1,931	(1,756)	(1,756)
Shareholders' equity, excluding goodwill attributable to equity holders		45,336	1,241	46,577	41,105	41,105
Goodwill attributable to equity holders		778	–	778	821	821
Total continuing operations	6	46,114	1,241	47,355	41,926	41,926
Discontinued US operations		–	–	–	12,081	12,081
Shareholders' equity at beginning of period (as previously disclosed)		–	–	–	54,007	54,007

	2022 \$m			2021 \$m	
	Half year			Half year	Full year
	Insurance and asset management operations	Other (central) operations	Group total	Group total	Group total
EEV shareholders' equity per share (in cents) ^{note (v)}					
<u>At end of period:</u>					
Continuing operations:					
Based on shareholders' equity, net of goodwill attributable to equity holders	1,440¢	71¢	1,511¢	1,620¢	1,696¢
Based on shareholders' equity at end of period	1,468¢	71¢	1,539¢	1,650¢	1,725¢
Discontinued US operations				102¢	-¢
Group total				1,752¢	1,725¢

At beginning of period:

Continuing operations:

Based on shareholders' equity, net of goodwill attributable to equity holders

	1,651¢	45¢	1,696¢	1,576¢	1,576¢
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Based on shareholders' equity at beginning of period	1,680¢	45¢	1,725¢	1,607¢	1,607¢
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Discontinued US operations

				463¢	463¢
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Group total

	2,070¢	2,070¢
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	2022			2021	
	Half year			Half year	Full year
	Before non-controlling interests	After non-controlling interests	Basic earnings per share	Basic earnings per share	Basic earnings per share
	\$m	\$m	cents	cents	cents
EEV basis basic earnings per share ^{note (vi)}					
Based on operating profit from continuing operations	1,806	1,796	65.6¢	66.7¢	133.8¢
Based on (loss) profit for the period:					
From continuing operations	(3,508)	(3,518)	(128.6)¢	72.5¢	121.7¢
From discontinued US operations	-	-	-¢	(352.7)¢	(367.1)¢
Group total				(280.2)¢	(245.4)¢

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 period. Investment in operations reflects movements in share capital.
- (iii) New share capital subscribed in full year 2021 primarily represented the issuance of new ordinary shares on the Hong Kong Stock Exchange in October 2021 as described in note C8 of the IFRS financial results.
- (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 30 June 2022 of 2,749 million shares (30 June 2021: 2,616 million shares; 31 December 2021: 2,746 million shares).
- (vi) Based on weighted average number of issued shares of 2,736 million shares in half year 2022 (half year 2021: 2,601 million shares; full year 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 period, net of amounts reinvested in writing new business. For asset management businesses, it equates to post-tax adjusted operating profit for the period.

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 used in our GWS reporting as set out in note 7.1(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 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 the first half of 2022) are treated as capital for the purposes of free surplus at 30 June 2022.

A reconciliation of EEV free surplus to the GWS shareholder capital surplus over group minimum capital requirements is set out in note I(i) of the additional financial information.

	Note	2022 \$m			2021 \$m	
		Insurance and asset management operations	Other (central) operations	Group total	Half year	Full year
Continuing operations:					Group total	Group total
Expected transfer from in-force business		1,287	–	1,287	1,165	2,340
Expected return on existing free surplus		159	–	159	84	157
Changes in operating assumptions and experience variances		(60)	–	(60)	35	(173)
Operating free surplus generated from in-force long-term business	2	1,386	–	1,386	1,284	2,324
Investment in new business ^{note (ii)}	2	(279)	–	(279)	(319)	(537)
Long-term business		1,107	–	1,107	965	1,787
Asset management		117	–	117	147	284
Operating free surplus generated from long-term and asset management businesses		1,224	–	1,224	1,112	2,071
Other income and expenditure	4	–	(263)	(263)	(359)	(723)
Restructuring and IFRS 17 implementation costs		(36)	(110)	(146)	(70)	(169)
Operating free surplus generated		1,188	(373)	815	683	1,179
Non-operating free surplus generated ^{note (iii)}		(1,400)	90	(1,310)	81	82
Free surplus generated from continuing operations		(212)	(283)	(495)	764	1,261
Free surplus generated from discontinued US operations^{note (i)}		–	–	–	1,303	770
Free surplus generated for the period		(212)	(283)	(495)	2,067	2,031
Equity items from continuing operations:						
Net cash flows paid to parent company ^{note (iv)}		(1,009)	1,009	–	–	–
Demerger dividend in specie from Jackson		–	–	–	–	(1,735)
Other external dividends		–	(320)	(320)	(283)	(421)
Foreign exchange movements on operations		(264)	17	(247)	(29)	10
New share capital subscribed ^{note (v)}		–	–	–	–	2,382
Other movements and timing differences		75	(323)	(248)	57	238
Treatment of grandfathered debt instruments under the GWS Framework		–	–	–	1,995	1,995
Equity items from discontinued US operations		–	–	–	(270)	(206)
Net movement in free surplus before non-controlling interest and before net subordinated debt issuance/redemption		(1,410)	100	(1,310)	3,537	4,294
Net subordinated debt redemption		–	(1,699)	(1,699)	–	(232)
Net movement in free surplus before non-controlling interest		(1,410)	(1,599)	(3,009)	3,537	4,062
Change in amounts attributable to non-controlling interests		(5)	–	(5)	(128)	(106)
Balance at beginning of period (as previously reported)		6,650	7,399	14,049	10,093	10,093
Effect of HK RBC		1,360	–	1,360	–	–
Balance at beginning of period after adoption of HK RBC		8,010	7,399	15,409	10,093	10,093
Balance at end of period		6,595	5,800	12,395	13,502	14,049
Representing:						
Free surplus excluding distribution rights and other intangibles		5,667	2,922	8,589	9,587	10,083
Distribution rights and other intangibles		928	2,878	3,806	3,915	3,966
Balance at end of period		6,595	5,800	12,395	13,502	14,049

		2022 \$m			2021 \$m	
			Insurance and asset management operations	Other (central) operations	Group total	30 Jun
Contribution to Group free surplus:	Note				Group total	Group total
<u>At end of period:</u>						
Continuing operations:						
Long-term business	2	5,960	–	5,960	5,566	5,960
Asset management and other	4	635	5,800	6,435	5,269	8,089
Total continuing operations		6,595	5,800	12,395	10,835	14,049
Discontinued US operations					2,667	–
Free surplus at end of period					13,502	14,049
<u>At beginning of period:</u>						
Long-term business	2	5,960	–	5,960	5,348	5,348
Asset management and other	4	690	7,399	8,089	2,996	2,996
Total continuing operations		6,650	7,399	14,049	8,344	8,344
Discontinued US operations					1,749	1,749
Free surplus at beginning of period					10,093	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 and gain or loss on corporate transactions for other entities.
- (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 full year 2021 primarily represented the issuance of new ordinary shares on the Hong Kong Stock Exchange in October 2021 as described in note C8 of the IFRS financial results.

Notes on the EEV financial results

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

Half year 2022						
	New business profit (NBP)	Annual premium equivalent (APE)	Present value of new business premiums (PVNBP)	New business Margin (APE)	New business Margin (PVNBP)	Closing EEV shareholders' equity, excluding goodwill
	\$m	\$m	\$m	%	%	\$m
CPL (Prudential's share)	217	507	2,119	43%	10%	3,302
Hong Kong	211	227	1,774	93%	12%	17,246
Indonesia	52	110	442	47%	12%	1,956
Malaysia	70	172	845	41%	8%	3,524
Singapore	244	390	3,184	63%	8%	6,712
Growth markets and other	304	807	3,364	38%	9%	6,225
Total long-term operations	1,098	2,213	11,728	50%	9%	38,965

Half year 2021 (AER)						
	New business profit (NBP)	Annual premium equivalent (APE)	Present value of new business premiums (PVNBP)	New business Margin (APE)	New business Margin (PVNBP)	Closing EEV shareholders' equity, excluding goodwill
	\$m	\$m	\$m	%	%	\$m
CPL (Prudential's share)	228	448	2,038	51%	11%	3,049
Hong Kong	306	253	1,991	121%	15%	20,951
Indonesia	57	117	485	49%	12%	2,350
Malaysia	113	211	992	54%	11%	3,814
Singapore	215	379	2,940	57%	7%	7,917
Growth markets and other	257	675	2,934	38%	9%	5,601
Total long-term operations	1,176	2,083	11,380	56%	10%	43,682

Half year 2021 (CER)						
	New business profit (NBP)	Annual premium equivalent (APE)	Present value of new business premiums (PVNBP)	New business Margin (APE)	New business Margin (PVNBP)	Closing EEV shareholders' equity, excluding goodwill
	\$m	\$m	\$m	%	%	\$m
CPL (Prudential's share)	227	447	2,034	51%	11%	2,943
Hong Kong	304	251	1,975	121%	15%	20,734
Indonesia	56	116	479	48%	12%	2,288
Malaysia	109	202	952	54%	11%	3,593
Singapore	210	370	2,869	57%	7%	7,647
Growth markets and other	249	650	2,838	38%	9%	5,277
Total long-term operations	1,155	2,036	11,147	57%	10%	42,482

Full year 2021 (AER)						
	New business profit (NBP)	Annual premium equivalent (APE)	Present value of new business premiums (PVNBP)	New business Margin (APE)	New business Margin (PVNBP)	Closing EEV shareholders' equity, excluding goodwill
	\$m	\$m	\$m	%	%	\$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

Note

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

Half year 2021 new business profit	\$m	1,176
Foreign exchange movement		(21)
Sales volume		101
Effect of changes in interest rates and other economic assumptions		(59)
Business mix, product mix and other items		(99)
Half year 2022 new business profit		1,098

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

	2022 \$m					2021 \$m	
	Half year					Half year	Full year
	Free surplus	Required capital	Net worth	Value of in-force business	Embedded value	Embedded value	Embedded value
Balance at beginning of period:							
Balance at beginning of period (as previously reported)	5,960	3,230	9,190	35,456	44,646	42,861	42,861
Effect of HK RBC	1,360	2,853	4,213	(3,984)	229	–	–
Balance at beginning of period after adoption of HK RBC	7,320	6,083	13,403	31,472	44,875	42,861	42,861
New business contribution	(279)	166	(113)	1,211	1,098	1,176	2,526
Existing business – transfer to net worth	1,287	6	1,293	(1,293)	–	–	–
Expected return on existing business ^{note 2(b)}	159	123	282	901	1,183	884	1,761
Changes in operating assumptions, experience variances and other items ^{note 2(c)}	(60)	(142)	(202)	20	(182)	(27)	(131)
Operating profit before restructuring and IFRS 17 implementation costs	1,107	153	1,260	839	2,099	2,033	4,156
Restructuring and IFRS 17 implementation costs	(31)	–	(31)	(1)	(32)	(26)	(82)
Operating profit	1,076	153	1,229	838	2,067	2,007	4,074
Non-operating result ^{note 2(d)}	(1,400)	(427)	(1,827)	(4,187)	(6,014)	48	(603)
(Loss) profit for the period	(324)	(274)	(598)	(3,349)	(3,947)	2,055	3,471
Non-controlling interests share of (profit) loss	(2)	–	(2)	(5)	(7)	(14)	(30)
(Loss) profit for the period attributable to equity holders of the Company	(326)	(274)	(600)	(3,354)	(3,954)	2,041	3,441
Foreign exchange movements	(234)	(104)	(338)	(818)	(1,156)	(423)	(457)
Intra-group dividends and investment in operations	(832)	(81)	(913)	81	(832)	(807)	(1,115)
Other movements ^{note 2(e)}	32	–	32	–	32	10	(84)
Balance at end of period ^{note 2(a)}	5,960	5,624	11,584	27,381	38,965	43,682	44,646

(a) Total embedded value

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

	2022 \$m		2021 \$m	
	30 Jun	30 Jun	31 Dec	
Value of in-force business before deduction of cost of capital and time value of options and guarantees	28,442	36,362	36,965	
Cost of capital	(693)	(740)	(725)	
Time value of options and guarantees ^{note}	(368)	(719)	(784)	
Net value of in-force business	27,381	34,903	35,456	
Free surplus	5,960	5,566	5,960	
Required capital	5,624	3,213	3,230	
Net worth	11,584	8,779	9,190	
Embedded value	38,965	43,682	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 7.1(d). At 30 June 2022, the TVOG is \$(368) 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 30 June 2022 which mean guarantees are less likely to be in-the-money. The TVOG reflects the variability of guaranteed benefit pay-outs 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 7.1(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 period, as described in note 7.2(c). The movement in this amount compared to the prior period from long-term operations is analysed as follows:

	\$m
Half year 2021 expected return on existing business	884
Foreign exchange movement	(17)
Effect of changes in interest rates and other economic assumptions	255
Growth in opening value of in-force business and other items	61
Half year 2022 expected return on existing business	1,183

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

Overall the total impact of operating assumption changes, experience variances and other items in half year 2022 was \$(182) million (half year 2021: \$(27) million; full year 2021: \$(131) million), comprising changes in operating assumptions of \$61 million in half year 2022 (half year 2021: \$37 million; full year 2021: \$118 million) and experience variances and other items of \$(243) million (half year 2021: \$(64) million; full year 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	
	Half year	Half year	Full year
Short-term fluctuations in investment returns ^{note (i)}	(5,208)	(866)	(1,015)
Effect of change in economic assumptions ^{note (ii)}	(806)	914	412
Non-operating results	(6,014)	48	(603)

Notes

- (i) The charge of \$(5,208) million in short-term fluctuations in investment returns mainly reflects lower than expected bond returns, following the rise in interest rates in many markets in the period, widening credit spreads and falling equity markets.
- (ii) The charge of \$(806) million effect of change in economic assumptions primarily arises from increases in long-term 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 business and products with overall the 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 to alternative economic assumptions

The tables below show the sensitivity of the embedded value and the new business profit for continuing 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 group prescribed capital requirements (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

	Half year 2022 \$m	Full year 2021 \$m
New business profit	1,098	2,526
Sensitivity to alternative economic assumptions:		
Interest rates and consequential effects – 2% increase	100	88
Interest rates and consequential effects – 1% increase	61	70
Interest rates and consequential effects – 0.5% decrease	(44)	(64)
Equity/property yields – 1% rise	84	155
Risk discount rates – 2% increase	(283)	(653)
Risk discount rates – 1% increase	(158)	(380)

Embedded value of long-term business

	30 Jun 2022 \$m	31 Dec 2021 \$m
Embedded value	38,965	44,646
Sensitivity to alternative economic assumptions:		
Interest rates and consequential effects – 2% increase	(4,137)	(4,782)
Interest rates and consequential effects – 1% increase	(2,006)	(2,228)
Interest rates and consequential effects – 0.5% decrease	1,033	223
Equity/property yields – 1% rise	1,738	1,909
Equity/property market values – 20% fall	(1,605)	(1,959)
Risk discount rates – 2% increase	(7,724)	(9,717)
Risk discount rates – 1% increase	(4,369)	(5,443)
Group minimum capital requirements	114	136

Overall, the new business profit sensitivities at 30 June 2022 are broadly in line with those at 31 December 2021 after allowing for the level of new business profit at a half year compared to a full year.

For a 1 per cent increase in assumed interest rates, the \$(2,006) million negative effect comprises a \$(4,369) million negative impact of increasing the risk discount rate by 1 per cent, partially offset by a \$2,363 million benefit from assuming 1 per cent higher investment returns. Similarly, for a 2 per cent increase in assumed interest rates the \$(4,137) million negative effect comprises a \$(7,724) million negative impact of increasing the risk discount rates by 2 per cent, partially offset by a \$3,587 million benefit from higher assumed investment returns. Finally, for a 0.5 per cent decrease in assumed interest rates, there would be a \$1,033 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 would likely be increased within the risk discount rate if interest rates increased by 1 per cent, leading to a reduction of \$(2,383) million (compared with the \$(2,006) million impact shown above). However, if interest rates actually decreased by 0.5 per cent, it would lead to a \$1,286 million increase (compared with the \$1,033 million increase shown above).

4 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 in London and Hong Kong 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 in London and Hong Kong 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	
	Half year	Half year	Full year
IFRS other income (expenditure) (as recorded in note B1.1 of the IFRS financial results)	(214)	(321)	(605)
Tax charge on the above IFRS results	(9)	-	(37)
Less: unwind of expected profit on internal management of the assets of long-term business	(40)	(38)	(81)
EEV other income (expenditure)	(263)	(359)	(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 the first half of 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	
	30 Jun	30 Jun	31 Dec
IFRS basis shareholders' equity (as recorded in note C1 of the IFRS financial results)	1,758	(1,320)	1,679
Mark-to-market value adjustment on central borrowings ^{note 5}	193	(625)	(438)
EEV basis shareholders' equity	1,951	(1,945)	1,241
Debt instruments treated as capital resources	3,849	6,577	6,158
Free surplus of other (central) operations	5,800	4,632	7,399

Treatment of US operations following demerger

The Group retained a 19.7 per cent economic interest (19.9 per cent voting interest) in Jackson, the Group's US operations, immediately following the demerger in September 2021. Transactions during 2021 and the first six months of 2022 have reduced the Group's holding to 14.3 per cent economic interest (14.3 per cent voting interest). The fair value of the Group's holding, as included in the Group's EEV at 30 June 2022, was \$325 million. Transactions in the first half of 2022 released a gain of \$60 million, which has been included in corporate transactions. 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 financial results for other (central) operations. This treatment is consistent with the approach adopted for IFRS.

5 Net core structural borrowings of shareholder-financed businesses

	2022 \$m			2021 \$m					
	30 Jun			30 Jun			31 Dec		
	IFRS basis note (ii)	Mark-to-market value adjustment note (iii)	EEV basis at market value	IFRS basis note (ii)	Mark-to-market value adjustment note (iii)	EEV basis at market value	IFRS basis note (ii)	Mark-to-market value adjustment note (iii)	EEV basis at market value
Holding company cash and short-term investments ^{note (i)}	(2,143)	-	(2,143)	(1,393)	-	(1,393)	(3,572)	-	(3,572)
Central borrowings:									
Subordinated debt	2,289	(173)	2,116	4,342	340	4,682	4,075	196	4,271
Senior debt	1,977	(20)	1,957	1,712	285	1,997	1,702	242	1,944
Bank loan	-	-	-	350	-	350	350	-	350
Total central borrowings	4,266	(193)	4,073	6,404	625	7,029	6,127	438	6,565
Net core structural borrowings of shareholder-financed businesses	2,123	(193)	1,930	5,011	625	5,636	2,555	438	2,993

Notes

- (i) Holding company includes centrally managed group holding companies.
(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 period 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	
	Half year	Half year	Full year
Mark-to-market value adjustment at beginning of period	438	795	795
Credit included in the income statement	(631)	(170)	(357)
Mark-to-market value adjustment at end of period	(193)	625	438

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

	2022 \$m	2021 \$m	
	30 Jun	30 Jun	31 Dec
Assets less liabilities before deduction of insurance funds	141,619	157,414	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 ^{note}	(125,347)	(141,191)	(147,546)
Shareholders' accrued interest in the long-term business	26,191	30,116	30,267
	(99,156)	(111,075)	(117,279)
Less non-controlling interests	(163)	(510)	(176)
Total net assets attributable to equity holders of the Company	42,300	45,829	47,355
Share capital	182	173	182
Share premium	5,010	2,645	5,010
IFRS basis shareholders' reserves	10,917	12,895	11,896
IFRS basis shareholders' equity, net of non-controlling interests	16,109	15,713	17,088
Shareholders' accrued interest in the long-term business	26,191	30,116	30,267
EEV basis shareholders' equity, net of non-controlling interests	42,300	45,829	47,355
Analysed as:			
Continuing operations		43,162	47,355
Discontinued operations		2,667	-
EEV basis shareholders' equity, net of non-controlling interests		45,829	47,355

Note

Excluding the policyholder liabilities of the discontinued US operations at 30 June 2021 pre its demerger in September 2021.

7 Methodology and accounting presentation

7.1 Methodology

(a) Covered business

The EEV financial 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 in London and Hong Kong 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 financial 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 8(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 8(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 Hong Kong, Singapore and Malaysia, 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, 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 8(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 Group prescribed capital requirements (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 very recently 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. No revisions to the guidance or any timelines in connection with the project have been proposed by the CAA to date.
- 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.

Since 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 30 June 2022, the total allowance for non-diversifiable non-market risk is equivalent to a \$(2.9) billion, or (8) 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.

7.2 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 7.1(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 period.

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.

8 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 7.1(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 %					
	New business			In-force business		
	2022	2021		2022	2021	
	30 Jun	30 Jun	31 Dec	30 Jun	30 Jun	31 Dec
CPL	7.4	7.6	7.3	7.4	7.6	7.3
Hong Kong ^{note (i)}	3.9	2.4	2.5	4.5	2.7	2.8
Indonesia	10.7	9.2	9.9	11.3	10.6	10.5
Malaysia	6.1	5.4	5.7	6.7	5.8	6.1
Philippines	14.6	11.2	12.0	14.6	11.2	12.0
Singapore	4.9	3.2	3.4	5.1	3.7	3.8
Taiwan	3.4	3.5	3.5	4.1	2.6	3.1
Thailand	10.4	9.1	9.3	10.4	9.1	9.3
Vietnam	5.3	3.9	4.0	5.1	4.1	4.1
Total weighted average ^{note (ii)}	6.5	5.2	5.0	5.9	4.2	4.3

	10-year government bond yield %			Equity return (geometric) %		
	2022	2021		2022	2021	
	30 Jun	30 Jun	31 Dec	30 Jun	30 Jun	31 Dec
	CPL	2.9	3.1	2.8	6.9	7.1
Hong Kong ^{note (i)}	3.0	1.5	1.5	6.5	5.0	5.0
Indonesia	7.9	7.1	7.0	12.1	11.4	11.3
Malaysia	4.3	3.4	3.7	7.8	6.9	7.2
Philippines	7.4	3.9	4.8	11.6	8.2	9.0
Singapore	3.0	1.6	1.7	6.5	5.1	5.2
Taiwan	1.3	0.5	0.7	5.3	4.5	4.7
Thailand	3.1	1.8	2.0	7.4	6.1	6.3
Vietnam	3.4	2.2	2.2	7.6	6.5	6.4
Total weighted average (new business) ^{note (ii)}	3.8	2.7	2.7	7.2	6.2	6.1
Total weighted average (in-force business) ^{note (ii)}	3.6	2.2	2.3	7.2	5.7	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 7.1(d).

- The stochastic cost of guarantees is primarily of significance for the Hong Kong, Malaysia, Singapore, Taiwan and Vietnam 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 all periods; and
- The volatility of government bond yields ranges from 1.1 per cent to 2.0 per cent for all periods.

(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.

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, it is Prudential's policy not to take credit for future cost reduction programmes until the actions to achieve the savings have been delivered. Expense overruns are reported where these are expected to be short-lived, including businesses that are growing rapidly or are sub-scale.

Expenses comprise costs borne directly and costs recharged from the Group head office functions in London and Hong Kong 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 in London and Hong Kong 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.

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 7.1(j). The local standard corporate tax rates applicable are as follows:

	%
CPL	25.0
Hong Kong	16.5 per cent on 5 per cent 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.

9 Insurance new business

	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
	Half year	Half year	Full year	Half year	Half year	Full year	Half year	Half year	Full year	Half year	Half year	Full year
AER												
CPL ^{note (i)}	858	787	1,760	421	369	600	507	448	776	2,119	2,038	3,761
Hong Kong	656	132	808	162	240	469	227	253	550	1,774	1,991	4,847
Indonesia	120	122	258	98	105	226	110	117	252	442	485	1,067
Malaysia	45	37	74	168	207	453	172	211	461	845	992	2,137
Singapore	1,715	1,155	2,412	219	264	502	390	379	743	3,184	2,940	6,214
Growth markets:												
Africa	4	7	15	75	65	133	76	66	134	151	144	288
Cambodia	-	-	-	7	7	14	7	7	14	30	30	59
India ^{note (ii)}	135	143	285	106	98	200	120	112	228	609	579	1,172
Laos	-	-	-	-	-	1	-	-	1	-	1	2
Myanmar	-	-	-	1	1	1	1	1	1	4	1	3
Philippines	36	40	89	84	86	168	87	90	177	297	340	655
Taiwan	86	78	172	271	178	379	281	187	397	994	662	1,417
Thailand	72	75	142	92	92	204	99	99	218	394	406	882
Vietnam	66	20	55	130	111	237	136	113	242	885	771	1,649
Total	3,793	2,596	6,070	1,834	1,823	3,587	2,213	2,083	4,194	11,728	11,380	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.

10 Post balance sheet events

First interim ordinary dividend

The 2022 first interim ordinary dividend approved by the Board of Directors after 30 June 2022 is as described in note B5 of the IFRS financial results.

Independent review report to Prudential plc

Conclusion

We have been engaged by Prudential (“the Company” or “the Group”) to review the European Embedded Value (EEV) basis supplementary financial information in the Half Year Financial Report for the six months ended 30 June 2022, which comprises the EEV Results Highlights, the Movement in Group EEV Shareholders' Equity, the Movement in Group Free Surplus and the related explanatory notes on the EEV financial results including the basis of preparation (collectively the “EEV basis supplementary information”). The EEV basis supplementary information should be read in conjunction with the condensed set of financial statements in the Half Year Financial Report.

Based on our review, nothing has come to our attention that causes us to believe that the EEV basis supplementary information in the Half Year Financial Report for the six months ended 30 June 2022 is not prepared, in all material respects, in accordance with the European Embedded Value Principles issued by the European Insurance CFO Forum in 2016 (“the EEV Principles”), using the methodology and assumptions set out in the notes to the EEV basis supplementary information.

Emphasis of matter – special purpose basis of preparation for the EEV basis supplementary information

We draw attention to the basis of preparation of the EEV basis supplementary information. As explained in the basis of preparation, the EEV basis supplementary information is prepared to provide additional information to users of the condensed set of financial statements in the Half Year Financial Report. As a result, the EEV basis supplementary information may not be suitable for another purpose. Our conclusion is not modified in respect of this matter.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity (“ISRE (UK) 2410”) issued for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the Half Year Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the EEV basis supplementary financial information.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention that causes us to believe that the Directors have inappropriately adopted the going concern basis of accounting, or that the Directors have identified material uncertainties relating to going concern that have not been appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the Group to cease to continue as a going concern, and the above conclusions are not a guarantee that the Group will continue in operation.

Directors' responsibilities

The directors are responsible for the preparation of the EEV basis supplementary information in accordance with the EEV Principles using the methodology and assumptions set out in the notes on the EEV financial results, including the basis of preparation.

In preparing the condensed set of financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Our responsibility

Our responsibility is to express to the Company a conclusion on the EEV basis supplementary information in the Half Year Financial Report based on our review. Our conclusion, including our conclusion relating to going concern, is based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion section of this report.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the Company in accordance with the terms of our engagement to provide a review conclusion to the Company on the EEV basis supplementary information. Our review of the EEV basis supplementary information has been undertaken so that we might state to the Company those matters we have been engaged to state in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Stuart Crisp

for and on behalf of KPMG LLP

Chartered Accountants
15 Canada Square
London
E14 5GL

9 August 2022

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* The additional financial information is not covered by the KPMG independent review opinions.

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 Insurance Authority (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 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. Following the trend to move to risk based regimes (discussed further below), from this reporting period onwards, the headline Group solvency position will be presented by comparing the total eligible group capital resources to the GPCR, rather than to the GMCR, which is more comparable to other global risk based measures. The Hong Kong IA is currently consulting on whether such disclosures should become a requirement for all groups under its supervision. The GPCR also remains the basis of our EEV capital requirements. In addition, the Tier 1 capital resources relative to the GMCR will also be 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:

31 December 2021	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
\$ billion								
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 ^{note (1)}

As at 30 June 2022, the estimated shareholder GWS capital surplus over the GPCR is \$16.2 billion (31 December 2021: \$17.5 billion), representing a coverage ratio of 317 per cent (31 December 2021: 320 per cent) and the total GWS capital surplus over the GPCR is \$19.1 billion (31 December 2021: \$21.4 billion), representing a coverage ratio of 205 per cent (31 December 2021: 204 per cent). The Group Tier 1 capital resources are \$18.4 billion with headroom over the GMCR of \$12.8 billion (31 December 2021: \$14.9 billion), representing a coverage ratio of 325 per cent (31 December 2021: 328 per cent).

For comparison to previous periods, as at 30 June 2022, the estimated shareholder GWS capital surplus over the GMCR was \$19.4 billion representing a coverage ratio of 548 per cent (31 December 2021: \$20.8 billion representing a coverage ratio of 545 per cent).

	30 Jun 2022			31 Dec 2021		
	Shareholder	Add Policyholder <small>note (3)</small>	Total	Shareholder	Add Policyholder <small>note (3)</small>	Total
Group capital resources (\$bn)	23.7	13.6	37.3	25.5	16.5	42.0
of which: Tier 1 capital resources (\$bn) ^{note (2)}	16.3	2.1	18.4	17.9	3.5	21.4
Group Minimum Capital Requirement (\$bn)	4.3	1.3	5.6	4.7	1.8	6.5
Group Prescribed Capital Requirement (\$bn)	7.5	10.7	18.2	8.0	12.6	20.6
GWS capital surplus over GPCR (\$bn)	16.2	2.9	19.1	17.5	3.9	21.4
GWS coverage ratio over GPCR (%)	317%		205%	320%		204%
GWS Tier 1 surplus over GMCR (\$bn)			12.8			14.9

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 30 June 2022, total Tier 1 capital resources of \$18.4 billion comprises: \$23.7 billion of total shareholder capital resources; less \$4.0 billion of Prudential plc issued sub-ordinated and senior Tier 2 debt capital; less \$3.4 billion of local regulatory tiering classifications in Singapore and China which are classified as GWS Tier 2 capital resources; plus \$2.1 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.

GWS sensitivity analysis

The estimated sensitivity of the GWS capital position to changes in market conditions, using the new GPCR basis as at 30 June 2022 is shown below, for both the shareholder and total capital position.

	30 June 2022			
	Shareholder		Total	
Impact of market sensitivities	Surplus (\$bn)	Coverage ratio	Surplus (\$bn)	Coverage ratio
Base position	16.2	317%	19.1	205%
<i>Impact of:</i>				
10% increase in equity markets	0.3	(5)%	0.9	(3)%
20% fall in equity markets	(1.7)	(10)%	(3.0)	(6)%
50 basis points reduction in interest rates	0.4	3%	(0.2)	(4)%
100 basis points increase in interest rates	(1.3)	(26)%	(0.6)	(4)%
100 basis points increase in credit spreads	(0.7)	(10)%	(1.3)	(7)%

The sensitivity results above reflect the impact on the Group's long-term business operations at 30 June 2022. The Group's retained economic interest in Jackson, which contributed \$0.2 billion to the GWS capital surplus at 30 June 2022 being 60 per cent of its market value at that date, and is assumed to be unchanged under stress. 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 30 June 2022 the Group's Free Surplus stock (excluding distribution rights and other intangibles) was \$8.6 billion, compared to the GWS shareholder surplus of \$16.2 billion and a reconciliation is shown below. A projection of expected Free Surplus capital generation for the next 40 years is shown in Section I(vi) of the Group's 2021 annual report, for in-force business and separately for one years' 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 30 June 2022. The Total GWS coverage ratio is the Group's regulatory solvency metric to which Group supervision applies, and this total regulatory solvency 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 \$19.1 billion at 30 June 2022 is set out in the table below.

	H1 2022 (\$bn)
Total GWS surplus at beginning of period (over GPCR) (Post regulatory updates)	21.4
Shareholder free surplus generation	
In force operating capital generation	1.1
Investment in new business	(0.3)
Total operating free surplus generation	0.8
External dividends	(0.3)
Non-operating movements (including market movements)	(1.3)
Other capital movements	(0.5)
Movement in free surplus (see EEV accounts for further detail)	(1.3)
Other movements in GWS shareholder surplus (not included in free surplus)	0.0
Movement in GWS policyholder surplus	(1.0)
Net movement in GWS capital surplus (over GPCR)	(2.3)
Total GWS surplus at end of period (over GPCR)	19.1

The movement in free surplus of \$(1.3) billion is discussed in the EEV accounts. Other GWS movements which are not reflected in EEV Free Surplus relate to a \$(0.2) billion movement in the items in the Reconciliation of free surplus to GWS capital surplus presented below, offset by a \$0.2 billion benefit from the exclusion of the movement in distribution rights and other intangibles from the GWS surplus.

Reconciliation of Free Surplus† to total regulatory GWS capital surplus (over GPCR)

	30 June 2022 \$bn		
	Capital resources	Required capital	Surplus
Free surplus†	14.2	5.6	8.6
Restrictions applied in free surplus for China C-ROSS ^{note (a)}	2.1	1.4	0.7
Restrictions applied in free surplus for Hong Kong RBC ^{note (b)}	5.3	0.4	4.9
Restrictions applied in free surplus for Singapore RBC ^{note (c)}	2.0	0.1	1.9
Other ^{note (d)}	0.1	0.0	0.1
Add GWS policyholder surplus contribution	13.6	10.7	2.9
Total regulatory GWS capital surplus (over GPCR)	37.3	18.2	19.1

† 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) 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 surplus reported for local regulatory purposes. Further differences relate to the treatment of China subordinated debt which is excluded from EEV free surplus and which contributes to C-ROSS surplus for local regulatory reporting.
- EEV free surplus for Hong Kong under the Hong Kong RBC regime excludes regulatory surplus that is not considered distributable immediately. This includes Hong Kong 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).
- Other primarily relates to asset valuation differences in particular where EEV Principles require surplus assets to be included at fair value whereas within the GWS capital surplus (over GPCR), some local regulatory regimes value certain assets at cost. This item also includes the difference in the valuation of the Group's retained interest in Jackson which is valued at the listed market value under EEV free surplus as compared to being valued at 60 per cent of the listed market value under GWS capital.

Reconciliation of Group IFRS shareholders' equity to Group total GWS capital resources

	30 Jun 2022 \$bn
Group IFRS shareholders' equity	16.1
Remove DAC, goodwill and intangibles recognised on the IFRS statement of financial position	(7.4)
Add debt treated as capital under GWS ^{note (a)}	4.0
Asset valuation differences ^{note (b)}	(0.8)
Liability valuation (including insurance contracts) differences ^{note (c)}	10.8
Differences in associated net deferred tax liabilities ^{note (d)}	1.1
Other ^{note (e)}	(0.1)
Contribution from Policyholder business	13.6
Group total GWS capital resources	37.3

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. This also includes the difference in the valuation of the Group's retained interest in Jackson which is valued at the listed market value (equal to its fair value) under IFRS as compared to being valued at 60 per cent of the listed market value for GWS capital.
- Liability valuation differences reflect differences in the basis of valuing liabilities between IFRS and local statutory valuation rules. Material differences include in Hong Kong and Singapore 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 China 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;
- 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, the Group retains a 14.3 per cent non-controlling interest in Jackson at 30 June 2022. 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 30 June 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 as Group capital resources. At 30 June 2022 all subordinated and senior debt (with the exception of the amount issued in the first half of 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; and
- The total company GWS capital basis is the capital measure for Hong Kong IA Group regulatory purposes. In addition 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.

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.

	Half year 2022			Half year 2021 AER			Half year 2021 CER		
	Profit \$m	Average liability \$m note (a)	Margin bps note (b)	Profit \$m	Average liability \$m note (a)	Margin bps note (b)	Profit \$m	Average liability \$m note (a)	Margin bps note (b)
Spread income	156	42,759	73	153	45,993	67	150	45,111	67
Fee income	172	33,540	103	169	32,888	103	164	32,096	102
With-profits	75	81,516	18	62	82,082	15	61	80,885	15
Insurance margin	1,683			1,467			1,434		
Margin on revenues	1,542			1,432			1,396		
Expenses:									
Acquisition costs ^{note (c)}	(1,129)	2,213	(51)%	(990)	2,083	(48)%	(968)	2,036	(48)%
Administration expenses	(899)	76,641	(235)	(804)	79,163	(203)	(780)	77,472	(201)
DAC adjustments	223			238			233		
Expected return on shareholder assets	107			101			99		
	1,930			1,828			1,789		
Share of related tax charges from joint ventures and associates ^{note (d)}	(32)			(21)			(21)		
Long-term business	1,898			1,807			1,768		
Eastspring	131			162			155		
Adjusted operating profit	2,029			1,969			1,923		

Notes

- The calculation of average liabilities is generally derived from opening and closing balances, with average liabilities used to derive the margin for fee income 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 period as a proportion of the relevant class of policyholder liabilities excluding unallocated surplus. Half year profits are annualised by multiplying by two.
- The ratio of acquisition costs is calculated as a percentage of APE sales in the period, 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 half year 2022 is 61 per cent (half year 2021: 60 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.

I(iii) Analysis of adjusted operating profit by business unit

The table below presents the half year 2021 results on both AER and CER bases to eliminate the impact of exchange translation.

	2022 \$m	2021 \$m		2022 vs 2021 %		2021 \$m
	Half year	Half year	Half year	Half year	Half year	Full year
		AER	CER	AER	CER	
CPL	149	139	139	7%	7%	343
Hong Kong	501	460	457	9%	10%	975
Indonesia	196	225	222	(13)%	(12)%	446
Malaysia	190	184	175	3%	9%	350
Singapore	340	320	312	6%	9%	663
Growth markets and other						
Philippines	59	58	54	2%	9%	110
Taiwan	45	47	46	(4)%	(2)%	94
Thailand	103	91	83	13%	24%	236
Vietnam	155	147	147	5%	5%	317
Other*	192	157	154	22%	25%	219
Share of related tax charges from joint ventures and associate	(32)	(21)	(21)	52%	52%	(44)
Long-term business	1,898	1,807	1,768	5%	7%	3,709
Eastspring	131	162	155	(19)%	(15)%	314
Adjusted operating profit	2,029	1,969	1,923	3%	6%	4,023

* Includes other growth markets and a number of small items that are not expected to reoccur.

(a) Eastspring adjusted operating profit

	2022 \$m	2021 AER \$m	
	Half year	Half year	Full year
Operating income before performance-related fees ^{note (1)}	332	374	747
Performance-related fees	4	6	15
Operating income (net of commission) ^{note (2)}	336	380	762
Operating expense ^{note (2)}	(184)	(196)	(403)
Group's share of tax on joint ventures' operating profit	(21)	(22)	(45)
Adjusted operating profit	131	162	314
Average funds managed by Eastspring Investments	\$241.8bn	\$247.6bn	\$251.7bn
Margin based on operating income ^{note (3)}	28bps	30bps	30bps
Cost/income ratio ^{note II(v)}	55%	52%	54%

Notes

(1) Operating income before performance-related fees for Eastspring can be further analysed as follows:

	Retail \$m	Margin bps	Institutional* \$m	Margin bps	Total \$m	Margin bps
Half year 2022	196	52	136	16	332	28
Half year 2021	225	56	149	18	374	30
Full year 2021	449	56	298	17	747	30

* Institutional includes internal funds.

(2) Operating income and expense include the Group's share of contribution from joint ventures. In the condensed 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 (FUM). Half year figures have been annualised by multiplying by two. Monthly closing internal and external funds managed by Eastspring have been used to derive the average. Any funds held by the Group's insurance operations that are managed by third parties outside the Prudential Group are excluded from these amounts.

(b) Eastspring total funds under management

Eastspring manages funds from external parties and also funds for the Group's insurance operations. The table below analyses the total funds managed by Eastspring.

	2022 \$bn	2021 AER \$bn	
	30 Jun	30 Jun	31 Dec
External funds under management, excluding funds managed on behalf of M&G plc ^{note (1)}			
Retail	58.4	67.9	68.5
Institutional	11.0	14.9	13.2
Money market funds (MMF)	12.1	13.3	12.3
	81.5	96.1	94.0
Funds managed on behalf of M&G plc ^{note (2)}	9.3	16.1	11.5
External funds under management	90.8	112.2	105.5
Internal funds under management	131.5	141.8	153.0
Total funds under management ^{note (3)}	222.3	254.0	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 AER \$m	
	Half year	Half year	Full year
At beginning of period	93,956	93,863	93,863
Market gross inflows	43,462	49,736	98,963
Redemptions	(44,898)	(50,605)	(99,862)
Market and other movements	(11,034)	3,102	992
At end of period*	81,486	96,096	93,956

* The analysis of movements above includes \$12,090 million relating to Asia Money Market Funds at 30 June 2022 (30 June 2021: \$13,292 million; 31 December 2021: \$12,248 million). Investment flows for half year 2022 include Eastspring Money Market Funds gross inflows of \$31,851 million (half year 2021: \$30,980 million; full year 2021: \$61,949 million) and net inflows of \$350 million (half year 2021: net outflows of \$(360) million; full year 2021: net outflows of \$(1,512) million).

(2) Movements in funds managed on behalf of M&G plc are analysed below:

	2022 \$m	2021 AER \$m	
	Half year	Half year	Full year
At beginning of period	11,529	15,737	15,737
Net flows	(688)	5	(4,040)
Market and other movements	(1,522)	356	(168)
At end of period	9,319	16,098	11,529

(3) Total funds under management are analysed by asset class below:

	2022		2021 AER			
	30 Jun		30 Jun		31 Dec	
	\$bn	% of total	\$bn	% of total	\$bn	% of total
Equity	96.6	43%	109.7	43%	107.1	41%
Fixed income	108.2	49%	125.8	50%	133.6	52%
Alternatives	2.5	1%	2.7	1%	2.7	1%
Money Market Funds	15.0	7%	15.8	6%	15.1	6%
Total funds under management	222.3	100%	254.0	100%	258.5	100%

I(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 period, focusing on those which are external to the Group and those primarily held by the Group's continuing 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.

	2022 \$bn	2021 \$bn	
	30 Jun	30 Jun	31 Dec
Continuing operations:			
Internal funds	168.8	181.9	193.9
Eastspring external funds, including M&G plc (as analysed in note I(iii) above)	90.8	112.2	105.5
Total Group funds under management^{note}	259.6	294.1	299.4

Note

Total Group funds under management comprise:

	2022 \$bn	2021 \$bn	
	30 Jun	30 Jun	31 Dec
Total investments and cash and cash equivalents held on the balance sheet	152.4	167.9	177.9
External funds of Eastspring, including M&G plc	90.8	112.2	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	16.4	14.0	16.0
Total Group funds under management	259.6	294.1	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 period 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	
	Half year	Half year	Full year
Net cash remitted by business units ^{note (a)}	1,009	1,035	1,451
Net interest paid	(117)	(163)	(314)
Corporate expenditure ^{note (b)}	(124)	(216)	(322)
Centrally funded recurring bancassurance fees	(220)	(176)	(176)
Total central outflows	(461)	(555)	(812)
Holding company cash flow before dividends and other movements	548	480	639
Dividends paid	(320)	(283)	(421)
Operating holding company cash flow after dividends but before other movements	228	197	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)}	159	(256)	(199)
US demerger costs	–	(28)	(30)
Total other movements	(1,570)	(284)	1,890
Net movement in holding company cash flow	(1,342)	(87)	2,108
Cash and short-term investments at beginning of period ^{note (d)}	3,572	1,463	1,463
Foreign exchange movements	(87)	17	1
Cash and short-term investments at end of period^{note (d)}	2,143	1,393	3,572

Notes

- Net cash remitted by business units comprise dividends and other transfers, net of capital injections, that are reflective of earnings and capital generation.
- Including IFRS 17 implementation and restructuring costs paid in the period.
- Other cash flow movements included net receipts from other corporate activities of \$159 million (2021: \$(256) million net payments) comprising proceeds of \$171 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.
- Proceeds from the Group's commercial paper programme are not included in the holding company cash and short-term investments balance.

I(vi) 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 7 of our EEV financial 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	2021	+/(-) %	2022	2021	+/(-) %	2022	2021	+/(-) %	2022	2021	+/(-) %
	Half year	Half year		Half year	Half year		Half year	Half year		Half year		
	\$m	\$m		\$m	\$m		\$m	\$m		\$m	\$m	
Continuing operations:												
CPL (Prudential's 50% share)	858	787	9%	421	369	14%	507	448	13%	2,119	2,038	4%
Hong Kong	656	132	397%	162	240	(33)%	227	253	(10)%	1,774	1,991	(11)%
Indonesia	120	122	(2)%	98	105	(7)%	110	117	(6)%	442	485	(9)%
Malaysia	45	37	22%	168	207	(19)%	172	211	(18)%	845	992	(15)%
Singapore	1,715	1,155	48%	219	264	(17)%	390	379	3%	3,184	2,940	8%
Growth markets:												
Africa	4	7	(43)%	75	65	15%	76	66	15%	151	144	5%
Cambodia	-	-	-	7	7	-	7	7	-	30	30	-
India (Prudential's 22% share)	135	143	(6)%	106	98	8%	120	112	7%	609	579	5%
Laos	-	-	-	-	-	-	-	-	-	-	1	(100)%
Myanmar	-	-	-	1	1	-	1	1	-	4	1	300%
Philippines	36	40	(10)%	84	86	(2)%	87	90	(3)%	297	340	(13)%
Taiwan	86	78	10%	271	178	52%	281	187	50%	994	662	50%
Thailand	72	75	(4)%	92	92	-	99	99	-	394	406	(3)%
Vietnam	66	20	230%	130	111	17%	136	113	20%	885	771	15%
Total insurance operations	3,793	2,596	46%	1,834	1,823	1%	2,213	2,083	6%	11,728	11,380	3%

CER	Single premiums			Regular premiums			APE			PVNBP		
	2022	2021	+/(-) %	2022	2021	+/(-) %	2022	2021	+/(-) %	2022	2021	+/(-) %
	Half year	Half year		Half year	Half year		Half year	Half year		Half year		
	\$m	\$m		\$m	\$m		\$m	\$m		\$m	\$m	
Continuing operations:												
CPL (Prudential's 50% share)	858	785	9%	421	368	14%	507	447	13%	2,119	2,034	4%
Hong Kong	656	130	405%	162	238	(32)%	227	251	(10)%	1,774	1,975	(10)%
Indonesia	120	120	-	98	104	(6)%	110	116	(5)%	442	479	(8)%
Malaysia	45	36	25%	168	199	(16)%	172	202	(15)%	845	952	(11)%
Singapore	1,715	1,128	52%	219	257	(15)%	390	370	5%	3,184	2,869	11%
Growth markets:												
Africa	4	7	(43)%	75	64	17%	76	65	17%	151	144	5%
Cambodia	-	-	-	7	7	-	7	7	-	30	30	-
India (Prudential's 22% share)	135	139	(3)%	106	94	13%	120	108	11%	609	557	9%
Laos	-	-	-	-	-	-	-	-	-	-	1	(100)%
Myanmar	-	-	-	1	1	-	1	1	-	4	1	300%
Philippines	36	37	(3)%	84	80	5%	87	83	5%	297	315	(6)%
Taiwan	86	76	13%	271	173	57%	281	181	55%	994	645	54%
Thailand	72	68	6%	92	84	10%	99	91	9%	394	371	6%
Vietnam	66	20	230%	130	112	16%	136	114	19%	885	774	14%
Total insurance operations	3,793	2,546	49%	1,834	1,781	3%	2,213	2,036	9%	11,728	11,147	5%

Schedule B Insurance new business APE and PVNBP (AER and CER)

APE	2021 \$m AER		2021 \$m CER		2022 \$m AER
	H1	H2	H1	H2	H1
Continuing operations:					
CPL (Prudential's 50% share)	448	328	447	325	507
Hong Kong	253	297	251	295	227
Indonesia	117	135	116	134	110
Malaysia	211	250	202	245	172
Singapore	379	364	370	362	390
Growth markets:					
Africa	66	68	65	66	76
Cambodia	7	7	7	7	7
India (Prudential's 22% share)	112	116	108	113	120
Laos	-	1	-	-	-
Myanmar	1	-	1	-	1
Philippines	90	87	83	84	87
Taiwan	187	210	181	204	281
Thailand	99	119	91	116	99
Vietnam	113	129	114	128	136
Total insurance operations	2,083	2,111	2,036	2,079	2,213

PVNBP	2021 \$m AER		2021 \$m CER		2022 \$m AER
	H1	H2	H1	H2	H1
Continuing operations:					
CPL (Prudential's 50% share)	2,038	1,723	2,034	1,708	2,119
Hong Kong	1,991	2,856	1,975	2,840	1,774
Indonesia	485	582	479	577	442
Malaysia	992	1,145	952	1,121	845
Singapore	2,940	3,274	2,869	3,248	3,184
Growth markets:					
Africa	144	144	144	134	151
Cambodia	30	29	30	29	30
India (Prudential's 22% share)	579	593	557	580	609
Laos	1	1	1	1	-
Myanmar	1	2	1	2	4
Philippines	340	315	315	304	297
Taiwan	662	755	645	732	994
Thailand	406	476	371	467	394
Vietnam	771	878	774	875	885
Total insurance operations	11,380	12,773	11,147	12,618	11,728

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)

	2021 AER		2021 CER		2022 AER
	HY	FY	HY	FY	HY
Continuing operations:					
New business profit (\$m)					
CPL (Prudential's 50% share)	228	352	227	350	217
Hong Kong	306	736	304	731	211
Indonesia	57	125	56	124	52
Malaysia	113	232	109	226	70
Singapore	215	523	210	515	244
Growth markets and other	257	558	249	543	304
Total insurance business	1,176	2,526	1,155	2,489	1,098
New business margin (NBP as a % of APE)					
CPL	51%	45%	51%	45%	43%
Hong Kong	121%	134%	121%	134%	93%
Indonesia	49%	50%	48%	50%	47%
Malaysia	54%	50%	54%	51%	41%
Singapore	57%	70%	57%	70%	63%
Growth markets and other	38%	40%	38%	40%	38%
Total insurance business	56%	60%	57%	60%	50%
New business margin (NBP as a % of PVNBP)					
CPL	11%	9%	11%	9%	10%
Hong Kong	15%	15%	15%	15%	12%
Indonesia	12%	12%	12%	12%	12%
Malaysia	11%	11%	11%	11%	8%
Singapore	7%	8%	7%	8%	8%
Growth markets and other	9%	9%	9%	9%	9%
Total insurance business	10%	10%	10%	10%	9%

Schedule D Investment flows and FUM (AER)

	2021 \$m		2022 \$m
	H1	H2	H1
Eastspring:			
Third-party retail:^{note}			
Opening FUM	66,838	67,903	68,516
Net flows:			
- Gross Inflows	17,491	17,065	11,050
- Redemptions	(18,281)	(15,148)	(12,808)
	(790)	1,917	(1,758)
Other movements	1,855	(1,304)	(8,351)
Closing FUM	67,903	68,516	58,407
Third-party institutional:			
Opening FUM	13,827	14,901	13,192
Net flows:			
- Gross Inflows	1,264	1,194	561
- Redemptions	(983)	(1,989)	(589)
	281	(795)	(28)
Other movements	793	(914)	(2,176)
Closing FUM	14,901	13,192	10,988
Total third-party closing FUM (excluding MMF and funds held on behalf of M&G plc)	82,804	81,708	69,395

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 financial results. A full reconciliation to profit after tax is given in note B1.1 of the Group IFRS financial results.

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, all in respect of continuing operations.

	2022 \$m	2021 \$m	
	30 Jun	30 Jun	31 Dec
Continuing operations:			
Core structural borrowings of shareholder-financed businesses	4,266	6,404	6,127
Less holding company cash and short-term investments	(2,143)	(1,393)	(3,572)
Net core structural borrowings of shareholder-financed businesses	2,123	5,011	2,555
Closing shareholders' equity	16,109	13,046	17,088
Closing shareholders' equity plus net core structural borrowings	18,232	18,057	19,643
IFRS gearing ratio	12%	28%	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 financial results. Half year profits are annualised by multiplying by two.

	2022 \$m	2021 \$m	
	Half year	Half year	Full year
Continuing operations:			
Adjusted operating profit	1,661	1,571	3,233
Tax on adjusted operating profit	(314)	(222)	(548)
Adjusted operating profit attributable to non-controlling interests	(4)	(7)	(17)
Adjusted operating profit, net of tax and non-controlling interests	1,343	1,342	2,668
Shareholders' equity at beginning of period	17,088	12,367	12,367
Shareholders' equity at end of period	16,109	13,046	17,088
Average shareholders' equity	16,599	12,707	14,728
Operating return on average shareholders' equity (%)	16%	21%	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 periods.

	2022	2021	
	30 Jun	30 Jun	31 Dec
Number of issued shares at the end of the period	2,749	2,616	2,746
Closing IFRS shareholders' equity for continuing operations (\$ million)	16,109	13,046	17,088
Shareholders' equity per share (cents) for continuing operations	586¢	499¢	622¢
Closing IFRS shareholders' equity for discontinuing operations (\$ million)	–	2,667	–
Shareholders' equity per share (cents) for discontinued US operations	–	102¢	–
Group Shareholders' equity per share (cents)	586¢	601¢	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	
	Half year	Half year	Full year
IFRS revenue	271	350	665
Share of revenue from joint ventures and associates	149	147	314
Commissions	(84)	(117)	(217)
Performance-related fees	(4)	(6)	(15)
Operating income before performance-related fees^{note}	332	374	747
IFRS charges	205	262	498
Share of expenses from joint ventures and associates	63	51	122
Commissions	(84)	(117)	(217)
Operating expense	184	196	403
Cost/income ratio (operating expense/operating income before performance-related fees)	55%	52%	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 condensed consolidated income statement of the Group IFRS financial results, 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		
	Half year	Half year AER	Half year CER	Full year AER
Continuing operations:				
IFRS gross premiums earned	12,241	11,521	11,287	24,217
Less: General insurance premium	(60)	(62)	(61)	(124)
Less: IFRS gross earned premium from new regular and single premium business	(3,990)	(2,764)	(2,698)	(6,500)
Add: Renewal premiums from joint ventures and associates ^{note}	1,097	1,150	1,130	2,295
Renewal insurance premiums	9,288	9,845	9,658	19,888
Annual premium equivalent (APE)	2,213	2,083	2,036	4,194
Life weighted premium income	11,501	11,928	11,694	24,082

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 period. APE is calculated as the aggregate of regular premiums and one-tenth of single premiums on new business written during the period 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	
	Half year	Half year	Full year
Continuing operations:			
Gross premiums earned	12,241	11,521	24,217
Less: premiums from in-force renewal business ^{note (a)}	(8,191)	(8,695)	(17,593)
Less: 90% of single premiums on new business sold in the period ^{note (b)}	(2,510)	(1,490)	(3,602)
Add: APE sales from joint ventures and associates on equity accounting method ^{note (c)}	662	607	1,104
Other adjustments ^{note (d)}	11	140	68
Annual premium equivalent (APE)	2,213	2,083	4,194

Notes

- (a) Gross premiums earned include premiums from existing in-force business as well as new business given the Group's focus on recurring premium business.
- (b) APE new business sales only include one-tenth of single premiums, recorded on policies sold in the period. Gross premiums earned include 100 per cent of such premiums.

- (c) 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.
- (d) 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 period 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	
	Half year	Half year	Full year
Continuing operations:			
IFRS gross premiums earned	12,241	11,521	24,217
Gross premiums earned from joint ventures and associates	2,368	2,066	4,579
Total Group	14,609	13,587	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 period:

	2022 \$m	2021 \$m	
	30 Jun	30 Jun	31 Dec
Continuing operations:			
IFRS shareholders' equity	16,109	13,046	17,088
Less: DAC assigned zero value for EEV purposes	(2,884)	(2,505)	(2,815)
Add: Value of in-force business of long-term business ^{note (a)}	27,381	34,903	35,456
Other ^{note (b)}	1,694	(2,282)	(2,374)
EEV shareholders' equity	42,300	43,162	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. One of the most significant valuation differences relate to changes in the valuation of insurance liabilities.

II(x) Calculation of return on embedded value

Operating return on embedded value is calculated as the EEV operating profit for the period as a percentage of average EEV basis shareholders' equity for continuing operations. Half year profits are annualised by multiplying by two.

	2022* \$m	2021 \$m	
	Half year	Half year	Full year
EEV operating profit for the period	1,806	1,749	3,543
Operating profit attributable to non-controlling interests	(10)	(14)	(28)
EEV operating profit, net of non-controlling interests	1,796	1,735	3,515
Shareholders' equity at beginning of period	47,584	41,926	41,926
Shareholders' equity at end of period	42,300	43,162	47,355
Average shareholders' equity	44,942	42,544	44,641
Operating return on average shareholders' equity (%)	8%	8%	8%

* Opening shareholders' equity at the beginning of half year 2022 has been adjusted for the early adoption of the Hong Kong Risk-based Capital (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 period as a percentage of average EEV basis shareholders' equity for continuing long-term business operations, excluding goodwill attributable to equity holders.

	2022	2021	
	Half year	Half year	Full year
New business profit (\$ million)*	1,098	1,176	2,526
Average EEV basis shareholders' equity for continuing long-term business operations, excluding goodwill attributable to equity holders (\$ million)	41,920	43,272	43,754
New business profit on embedded value (%)	5%	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 continuing long-term business operations, excluding goodwill attributable to equity holders, as follows:

	2022* \$m	2021 \$m	
	Half year	Half year	Full year
Shareholders' equity at beginning of period	44,875	42,861	42,861
Shareholders' equity at end of period	38,965	43,682	44,646
Average shareholders' equity	41,920	43,272	43,754

* Opening shareholders' equity at the beginning of half year 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 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 macro-economic conditions and investment climates could have a material adverse effect on Prudential's business and profitability. Prudential operates in a macro-economic and global financial market environment that has materially changed and presents with increased significant uncertainties and potential challenges. For example, the rise in energy and commodity prices, exacerbated by the Russia-Ukraine conflict and supply chain stresses resulting from Covid-19-related restrictions, has increased inflationary pressures. This has resulted in increases, with potential for further increases in interest rates in major global economies and the markets in which the Group operates, impacting the valuation of fixed income assets. Uncertainties also include the impact of factors such as the nature and extent of central banks and governments actions in response to inflationary pressures and to mitigate the impact of the current and future Covid-19 outbreaks. 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, may also result in greater uncertainty, fluctuations or negative trends in asset valuations, particularly for carbon intensive sectors, and will have a bearing on inflation levels.

The uncertain macro-economic and financial market environment may have a number of adverse impacts to the business, financial condition and results of the Group, increasing strategic and business risks, as well as increasing 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, 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, elevating 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 and its 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, 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. Increased inflation, combined with the possibility of an economic downturn or recession, may also result in affordability challenges, adversely impacting the ability of consumers to purchase insurance products, particularly in lower income customer segments. 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 the impact of Covid-19 outbreaks), 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 raise rates in response to inflation), the increased level of geopolitical and political risk and policy-related uncertainty (including those resulting from the Russia-Ukraine conflict and the potential impact on business sentiment and the broader market resulting from 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 in the level of 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; impair the valuation of debt securities and loans; 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 in 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 that 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. In particular, decreases in equity prices impact the amount of revenue derived from fees from the unit-linked products. 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 can impact the functioning of markets and may 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 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 macro-economic outlook and the environment for global financial markets. They may also increase regulatory compliance and reputational risks, or adversely impact Prudential where they apply to, and impact, the economic, business and 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, may also 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 significantly 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.

Covid-19 outbreaks and related restrictions on movement and economic activity 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. The future impact of Covid-19 on financial markets and economic growth remains uncertain and unpredictable and will be influenced by the policies and actions of governments, policymakers and the public in managing outbreaks in the markets where they may occur. These actions, and their effectiveness, vary between markets, and may result in uneven regional and global economic impacts, and include some dependency on the extent and timing of measures to restrict movement and the effectiveness of vaccination programme deployment and uptake in response to outbreaks of current, emerging and future variants of the coronavirus. Where market-specific actions and impacts are prolonged, they may affect the solvency position of the Group's subsidiaries and prevent or limit their ability to make remittances, adversely impacting the financial condition and prospects of the Group. This potential variation in the economic impacts of outbreaks of infections of current, emerging and future variants of the coronavirus between markets, and the subsequent impact on their respective interest rates, inflation expectations and the relative strength of their currencies (and the associated impact on their foreign currency debt obligations, which may disproportionately impact emerging economies) may have broader long-term adverse economic and financial consequences for the markets in which the Group operates and the full extent of this currently remains uncertain. The longer term political, regulatory and supervisory developments resulting from Covid-19 remain uncertain. These may include changes to government fiscal policies, laws and regulations aimed at increasing financial stability and/or measures on businesses or specific industries to contribute to, lessen or otherwise support, the financial cost to governments in addressing the pandemic. This may extend to requirements on private insurance companies and healthcare providers to cover the costs associated with the treatment of Covid-19 beyond contractual or policy terms.

Where measures to contain Covid-19 have been in effect, the level of sales activity in affected markets has been, and may continue to be, adversely impacted through a reduction in travel and agency and bancassurance activity. In particular, sales in the Group's Hong Kong business continue to be adversely impacted by the border restrictions in place with the Chinese Mainland. Recovery in sales levels in Hong Kong will be dependent on the timing, nature and extent of applied restrictions and any easing of policy, with the recent outbreaks of the Covid-19 Omicron variant in Hong Kong and the Chinese Mainland further increasing uncertainty to the return of Chinese Mainland customers as well as the resumption of their demand for the Group's products in Hong Kong. These impacts may be prolonged in markets which continue to rely on a policy of containment based on restrictions of movement. The impact on economic activity and employment levels may result in an elevated incidence of claims, lapses, or surrenders of policies, and some policyholders may choose to defer or stop paying insurance premiums or reduce deposits into retirement plans. The pandemic may also indirectly result in elevated claims and policy lapses or surrenders, with some delay in time before being felt by the Group, due to factors such as policyholders deferring medical treatment during the pandemic, or policyholders lapsing or surrendering their policies on the expiry of grace periods for premium payments provided by the Group's businesses. The Group's assessment to date is that elevated mortality claims in some markets can be attributed to Covid-19. The full extent of the impact of Covid-19 on the Group's claims and persistency experience to date and its current insurance assumptions cannot be taken as an indicator of future potential experience from the Covid-19 pandemic which may deteriorate significantly and have a material adverse effect on Prudential's business, financial condition, results of operations and prospects. The potential longer-term impacts of the pandemic may 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).

Disruption to Prudential's operations may result where its employees, or those of its service partners and counterparties, contract Covid-19 or are affected by restrictions on movement; where office closures and other measures impacting working practices are effected, such as the imposition of remote working arrangements; and where quarantine requirements and isolation measures under local laws apply, and as a result of social distancing and/or other psychosocial impacts. While such measures are in place, there may also be an increase in attempts to compromise the resilience of IT systems through phishing, social engineering tactics and ransomware. Such measures, and the cycles of their relaxation and re-imposition, may also adversely impact the physical and mental health of the Group's staff, increasing the risk of operational disruption resulting from performance impairment, an increase in absenteeism, or increased levels of staff turnover, which may affect operational capacity and with the potential to be exacerbated by challenges in recruitment. The operations of Prudential's service partners (which subject the Group to the risks detailed in risk factor 3.7, resulting in certain risks that Prudential does not face with respect to its wholly-owned subsidiaries) may be disrupted in different ways and to a more severe extent than the Group's operations and may impact service delivery to the Group.

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 new operational and regulatory risks, in particular those focused on customer outcomes and conduct. A failure to implement appropriate governance and management of these new or incremental risks may adversely impact Prudential's reputation and brand and the results of its operations. In markets where the level of sales under these new 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, 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 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 occasion 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 current 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 therefore take in response to the actions of rating agencies, 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 to which they are a party 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.

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 sustainability of Prudential by adversely impacting the Group's reputation and brand, 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 shareholders.

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 transition to a lower carbon economy and physical and litigation risks. The global transition to a lower carbon economy may have an adverse impact on investment valuations 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 public policy, technology and changes in 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. The transition to a lower carbon economy has 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 pace and volume of new climate-related regulation emerging across the markets in which the Group operates, the need to deliver on existing and new voluntary exclusions on investments in certain sectors, engagement and reporting commitments and the demand for externally assured reporting may give rise to compliance, operational and disclosure risks which may be increased by the multi-jurisdictional coordination required in adopting a consistent risk management approach. See risk factor 4.1 for details of ESG and sustainability-related regulatory and supervisory developments with potential impacts the Group.

The Group's ability to sufficiently understand and appropriately react to transition risk and its ability to deliver on its external carbon reduction commitments may be limited by insufficient or unreliable data on carbon exposure and transition plans for the 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. Climate-driven events 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.

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, needs, and interests of its customers and employees and the communities in which the Group or its third parties operate. Perceived inequalities and income disparities, 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. These risks are increased as Prudential operates in multiple jurisdictions 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.

As an employer, the Group is also exposed to the risk of being unable to attract, retain and develop a diverse group of highly-skilled employees to meet the changing need of a transformative organisation. This may increase if Prudential does not implement responsible working practices or fails to recognise the benefits of diversity, ensure psychological safety for employees, or promote a culture of inclusion and sense of belonging. 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.

(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 poor 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, may adversely impact the financial condition and reputation of the Group and may 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 and 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.

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. Any 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 Group 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.

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.

There may be adverse non-financial (including operational, regulatory, conduct and reputational) implications for the Group in undertaking transformation initiatives, which inherently give rise to design and execution risks, and may increase existing business risks, such as placing additional strain on employees, operational capacity, and/or result in a weakening the control environment, of the Group. Implementing initiatives related to significant regulatory changes, such as IFRS 17, the Hong Kong IA's Risk-Based Capital (RBC) and C-ROSS II capital regimes at the Group's Hong Kong and Chinese Mainland businesses, 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. 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 is exposed to ongoing risks as a result of the Jackson Demerger, which, if they materialise, could adversely affect Prudential's business.

(a) The Group continues to hold shares in Jackson but no longer has any control

On 13 September 2021, Prudential completed the Jackson Demerger (the 'Demerger'). As at 30 June 2022, the Group retains a 14.3 per cent economic interest and voting interest in the total common stock of Jackson. The Group intends to reduce this investment to less than 10 per cent within 12 months of the completion of the Jackson Demerger. As a result of the Demerger, Prudential no longer has the ability to control Jackson's strategic, financial and operational decisions. Jackson may fail to develop its business, meet the expectations of investors, may be subject to adverse publicity and increased legal or regulatory scrutiny, or its reported financial position may be adversely impacted by errors or limitations in its modelling and other assumptions related to its business, including the calculation of regulatory or internal capital requirements, the valuation of assets and liabilities, and determining hedging requirements. These factors may have an adverse impact on the market price of Jackson shares, which may be volatile and can go down as well as up. It is therefore possible that the value of Prudential's shareholding may be lower than anticipated, and the gross proceeds due to Prudential from any future sale may be lower than Prudential might otherwise achieve.

(b) Prudential may incur liabilities in connection with the Jackson Demerger

At the time of the Demerger, Prudential and Jackson entered into the Demerger Agreement. This governs the post-Jackson Demerger obligations of the Group and the Jackson Group and contains, among other provisions, indemnities under which Prudential indemnifies the Jackson Group against liabilities that may arise in connection with the business carried on by the Group (other than Jackson's business) prior to the Jackson Demerger. Prudential has the right to defend any such claim.

Although it is not anticipated that Prudential will be required to pay any substantial amount pursuant to such indemnity obligations, if any amounts payable under the indemnities are substantial, this could have a material adverse effect on the financial condition and/or results of Prudential.

In addition, in connection with the Jackson Demerger, Prudential may be subject to claims by Jackson's shareholders and other third parties for any material misstatements or omissions of material facts contained within Jackson's Form 10 registration document, or for any fraudulent, intentional or reckless misleading disclosure in connection with the Jackson Shares under the US Securities and Exchange Act of 1934. If those claims are not successfully defended, Prudential may have to pay compensation, and where this is substantial may adversely affect Prudential's business, financial condition, cash flows, results of operations and prospects.

3.3 Prudential's businesses are conducted in highly competitive environments with developing demographic trends. The profitability of the Group's businesses depend 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 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 sufficient numbers of skilled staff.

The Group's principal competitors include global life insurers together with 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 prospects.

3.4 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 external technology and data hosting) and service partners. These include back office support functions, such as those relating to IT 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 (including in relation to tax) 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 by disrupting 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, and may damage Prudential's reputation and relationship with its customers and business partners. A failure to adequately oversee service partners (or their IT and operational systems and processes) could result in significant service degradation or disruption to Prudential's business operations and 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 IT 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 have 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 IT, 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 IT systems, data and processes, as with operational systems and processes generally, may also be susceptible to failure or security/data breaches.

3.5 Attempts to access or disrupt Prudential's IT 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 IT 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), wiperware (an evolved form of ransomware designed simply to damage or erase data without any option for recovery), 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 the first half of 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 Pulse platform 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. A failure to do so 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 recent Data Security Law and Personal Information Protection Law, and the revised Measures for Cybersecurity Review and recently released draft rules on the provision of internet healthcare services. 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 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.

Prudential has not, to date, experienced or been affected by any cyber and data breaches which has 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.

3.6 Prudential's Pulse platform may increase existing business risks to the Group or introduce new risks as the markets in which it operates and its features, partnerships and product offerings develop.

Prudential's digital platform, Pulse, is subject to a number of the 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 operates, 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 platform features and offerings 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 platform includes functionality relating to user generated content, which may expose Prudential to legal liability or reputational risk in the hosting of that content;
- The increased volume, breadth and sensitivity of data on which the business model of Pulse 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 operational, conduct, litigation and reputational risks where they do not function as intended;
- The platform and its services rely on 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 platform, which may introduce new regulatory, operational, conduct and strategic risks for the Group. Any slowdown in digitalisation may reduce user adoption rates, the current size of the user base of Pulse and/or the development of product and service offerings, which may impact the ability of the Group to deliver its digital strategy. Regulations may be introduced which limit the permitted scope of online or digitally distributed insurance, asset management or medical services, which may restrict current or planned offerings provided by the Pulse platform. Markets may also introduce regulations with specific licensing requirements or requiring the provision of current or planned services via locally incorporated entities, which increases the regulatory and compliance risks associated with operating the Pulse 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.

3.7 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 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 in the Chinese Mainland and India. 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 recent 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 provider system 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.

3.8 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 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 we operate in. The profitability of the Group's businesses also may be adversely impacted by medical reimbursement downgrade experience following any re-pricing.

Prudential 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 assumption 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 assumption. 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 the Covid-19 pandemic 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), 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, 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)

The Hong Kong IA has been the Group-wide supervisor of Prudential since 21 October 2019. 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. The GWS Framework is based on a principle-based and outcome-focused approach, and 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 subject to transitional arrangements allowed in legislation which were agreed with the Hong Kong IA, requirements for which have been implemented with the exception of the arrangement noted below.

Under the GWS Framework, all debt instruments, both senior and subordinated, issued by Prudential as at the date of designation meet the transitional conditions set by the Hong Kong IA and are included as eligible Group capital resources.

Whilst the regulatory requirements have been finalised and 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.

(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 (the 'FSB') in the area of systemic risk including the reassessment of the designation of Global Systemically Important Institutions (the G-SIIs), and the Insurance Capital Standard (the 'ICS') being developed by the International Association of Insurance Supervisors (the '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 ('Insurance Capital Standard') 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 is requested by 15 August 2022 and the IAIS expects to adopt the comparability criteria by November 2022.

In November 2019 the FSB endorsed a new Holistic Framework ('HF'), intended for the assessment and mitigation of systemic risk in the insurance sector, for implementation by the IAIS in 2020 and has suspended G-SII designations until completion of a review to be undertaken in 2022. 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 expected to be 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.

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:

- On 18 January 2022, the IAIS released its 2022-23 roadmap. In addition to those related to the HF and ICS, key areas of focus will include activities and initiatives focusing on operational and cyber resilience in the insurance sector including IT third-party outsourcing, climate change risk, financial inclusion, culture and conduct, diversity, equity and inclusion, fintech and policyholder protection schemes and their role in insurer resolution;
- Following consultation, the IAIS is proposing to finalise the liquidity metrics to be used as ancillary indicators, by the end of 2022; and
- Following the publication of its 2020 Resolution Report in November 2020, FSB consultations on practice papers on intra-group connectedness and resolution funding for insurers, were completed on 12 March 2022. Resolution regimes will continue to be a near term focus in the FSB's financial stability work, potentially being a key tool in informing decisions around the reformed G-SII designation. These consultations constitute the last of the FSB's systemic risk work for insurers, prior to the designation assessment planned at year end 2022.

(c) Regional regulatory regime developments, including climate-related regulatory changes

In the Group's key markets, regulatory changes and reforms are in progress, with some uncertainty on the full impact to Prudential:

- In the Chinese Mainland, regulatory tightening across a number of industries in 2021, which may continue across other industries, has driven market volatility, heightened credit risk, adversely impacted business sentiment, with the potential for broader financial contagion. Other recent regulatory developments in the Chinese Mainland which may potentially increase compliance risk to the Group include the following:
 - Development of a holistic data governance regime in the Chinese Mainland, which have recently included the Data Security Law, the Personal Information Protection Law, and the revised Measures for Cybersecurity Review;
 - The CBIRC recently released new regulations on internet life insurance sales in the Chinese Mainland which include restrictions on the selling of certain long-term products online, effective 31 December 2021; and
 - On 26 October 2021 the National Health Commission released for public comment draft rules on the internet healthcare services, which include restrictions on online AI-driven diagnosis and treatments as well as requirements including real-time supervision by provincial internet supervision platforms and meeting financial and operational criteria, including certain risk management and corporate governance ratings. These rules may have implications for the Group's plans for its Pulse platform in the Chinese Mainland.
 - Various policy and regulatory developments relevant to the provision of financial services in the Chinese Mainland are in progress, including those relating to financial stability, through increased spending, banks' and insurance companies' role in supporting the development of the real economy, and systemic financial risk management; its 'Pillar III' pensions reforms, which includes promoting the development of individual pensions through a centrally-administered scheme; and insurance distribution and inclusion, including draft measures relating to salesforce/agency development and extension of affordable protection for under-served communities. These may increase regulatory compliance and business risks for the Group's business in the Chinese Mainland.
 - There has been recent increased regulatory focus by the Hong Kong IA on, in particular, customer experience, connections with the Greater Bay Area for cross-border servicing, investment management, governance and sustainability and climate and sustainability-related topics (see below).
- In Indonesia, regulatory and supervisory focus on the insurance industry remains high. The Financial Services Authority of Indonesia, the Otoritas Jasa Keuangan ('OJK') has 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 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 IT risk management. Since the 2014 Insurance Law, the industry has been subject to regulatory expectations on the separation of conventional and Sharia business.
- In Malaysia, Bank Negara Malaysia ('BNM'), the central bank of Malaysia, issued a circular letter in Q1 2021 specifying requirements for the design and disclosure of ILPs which provide extension of coverage beyond the initial coverage term. These changes aim to improve the appropriateness of product design and the customer disclosures provided on ILP policy documents. The new requirements for ILP products sold since March 2021 came into effect on 22 September 2021, while for all in-force products sold prior to March 2021 the effective date was 1 April 2022. The changes materially impact insurer systems, disclosures, customer communications, sales conduct and post-sale processes.
- 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 2018. 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 will include quantitative impact studies planned in 2022, and the issuance of an exposure draft and parallel run planned in 2023 prior to potential full implementation in 2024.
- In Hong Kong, 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 the Chinese Mainland, on 30 December 2021 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 transitional arrangements.

The pace and volume of climate-related regulatory changes is also increasing. Regulators including the Hong Kong Monetary Authority, 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 the environment and climate change. It is expected that other regulators will develop 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 regulatory consultations are expected from the Hong Kong IA. International regulatory and supervisory bodies, such as the International Sustainability Standards Board (ISSB), are progressing on 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 and reputation risks remain high and may increase. These changes and developments may give rise to compliance, operational, reputational and disclosure risks requiring Prudential to coordinate across multiple jurisdictions in order to apply a consistent risk management approach.

(d) IFRS 17

Prudential's consolidated accounts are prepared in accordance with current IFRS applicable to the insurance industry. In May 2017, the IASB published its standard on insurance accounting (IFRS 17, 'Insurance Contracts') which replaces the current IFRS 4 standard. Some targeted amendments to this standard, including to the effective date, were issued in June 2020 and December 2021. IFRS 17, 'Insurance Contracts', as amended, will have the effect of introducing fundamental changes to the statutory reporting of insurance entities that prepare accounts according to IFRS from 2023. Prudential has a Group-wide implementation programme to implement this new standard. A reliable estimate of the effect of changes required to the Group's accounting policies as a result of implementing this standard, which is expected to alter the timing of IFRS profit recognition, is not yet available as implementation is under way. The implementation of this standard involves significant enhancements to the IT, actuarial and finance systems of the Group. 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 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 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 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 has also been 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 (including those relating to the conduct of business), regulatory reviews of broader industry practices and products sold (including in relation to lines of business already closed) 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. In some cases, product providers can be held responsible 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 (including tax) or from a course of conduct taken by Prudential, and may be class actions. 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 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 11 January 2022, the UK government issued a consultation on the UK implementation of these rules, with the intention of including required legislation in Finance Bill 2022-23 and for the rules to be effective from 1 April 2023. On 14 March 2022 the OECD issued detailed guidance to assist with interpreting the model rules. On 14 June 2022 the UK government announced it would defer the introduction of the rules until the first accounting period starting on or after 31 December 2023 and confirmed its intention to issue draft legislation in the summer of 2022. The next key document expected from the OECD in respect of the second pillar (the GloBE Implementation Framework) is scheduled to be published towards the end of 2022. This is expected to supplement the 14 March 2022 OECD document with some amended and additional guidance, including agreed administrative procedures, such as filing obligations, and multilateral review processes to facilitate both compliance by multinational enterprises and administration by tax authorities. 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 global 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 is available, the full extent of the long-term impact on Prudential's business, tax liabilities and profits remain uncertain.

By order of the Board
Prudential plc
Tom Clarkson
Company Secretary

10 August 2022, London

As at the date of this announcement, the Board of Directors of Prudential plc comprises:

Chair

Shriti Vinodkant Vadera

Executive Directors

Mark Thomas FitzPatrick CA (*Group Chief Executive*) and Stuart James Turner FCA FCSI FRM

Independent Non-executive Directors

Jeremy David Bruce Anderson CBE, Chua Sock Koong, David John Alexander Law ACA,
Ming Lu, Philip John Remnant CBE FCA, George David Sartorel, Thomas Ros Watjen,
Jeanette Kai Yuan Wong and Yok Tak Amy Yip

* *For identification purposes*