Financial review

Strong and *diversified* financial performance

Prudential delivered a strong 2023 financial performance. This highlights the value of our diversification across geography and by distribution channel. We introduced two new financial objectives as an integral part of the Group's strategy update. In 2023 we made good progress towards our 2027 new business profit objective and are on track with our related 2027 objective for operating free surplus generated from in-force insurance and asset management business. 2023 also saw higher EEV operating profit and shareholders' equity, as well as higher Group adjusted operating profit following CSM growth.

2023 saw an improvement in economic performance of the countries in which we operate. There was still volatility although this reduced over the course of the year. Government bond yields in many of our Asian markets reduced while the US 10-year yield closed the year relatively stable at 3.9 per cent. Equity market performance varied considerably, with the S&P 500 index increasing by 24 per cent, the MSCI Asia excluding Japan equity index by 4 per cent, while the Hang Seng index fell by 14 per cent.

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. We discuss our financial position on an actual exchange rates basis, unless otherwise noted. The definitions of the key metrics we use to discuss our performance in this report are set out in the 'Definition of performance metrics' section later in this document.

New business profit was up 45 per cent to $3,125 million, led by Hong Kong, with a double-digit growth in 12 of our 22 markets following the removal of all pandemic-related restrictions, in particular the reopening of the border between Hong Kong and the Chinese Mainland and consequential rebound of APE sales. Further, we saw a 34 per cent increase in the new business profit for health and protection products contributing to 40 per cent of our new business profit, while the new business profit for savings product grew by 54 per cent. This was underpinned by a 37 per cent growth in APE sales, which, in absolute terms, exceeded the pre-pandemic level of 2019. Excluding the effects of interest rates and other economic changes, given our active EEV reporting basis, new business profit increased by 47 per cent.

Group EEV operating profit increased by 17 per cent to $4,546 million, largely due to higher new business profits from insurance business, an increase in the profit from Eastspring, our asset management business, and a reduction in central costs. The operating return on embedded value was 10 per cent compared with 9 per cent in 2022. After allowing for the payment of the external dividend and economic effects, such as changes in interest rates, and currency movements, the Group's embedded value at 31 December 2023 was $45.3 billion (31 December 2022: $42.2 billion on an actual exchange rate basis), equivalent to 1,643 cents per share (31 December 2022: 1,534 cents per share on an actual exchange rate basis). The operating free surplus generated from in-force insurance and asset management business during the period was $2,740 million, broadly flat when compared to prior year. Investment in new business of $(733) million (2022: $(552) million) reflected higher APE sales and business mix effects. As a result total operating free surplus generated from life and asset management business reduced to $2,007 million (2022: $2,173 million).

The Group implemented IFRS 17, the new accounting standard for insurance contracts in 2023 with comparatives restated accordingly. In line with the preliminary guidance provided with the Group's 2022 results (on an actual exchange rates basis), the Group shareholders' equity at 1 January 2022, the date of transition, increased by $1.8 billion to $18.9 billion and 2022 full year adjusted operating profit fell by $653 million to $2,722 million. The full year 2022 saw a loss after tax of $(997) million on an IFRS 17 basis. While IFRS 17 is an important accounting change, resulting in changes to the timing of profit recognition compared with the previous IFRS 4 approach, it does not change the total level of profit generated. As a result, it does not change the underlying economics of our business. Our embedded value framework, which is linked to the Group's regulatory position and consequently future capital generation, is in our view more representative of shareholder value. The Group also implemented IFRS 9 Financial Instruments from 1 January 2023, with no material impact on the Group's financial statements. Further details on the transition to IFRS 17 and IFRS 9 are included in the IFRS financial results.

Group IFRS adjusted operating profit was $2,893 million, up 8 per cent in 2023, largely as a result of lower central costs and higher profits from Eastspring, our asset management business. The Group's total IFRS profit after tax for the period was $1,712 million, an improvement on the 2022 loss after tax of $(1,005) million on a constant exchange rate basis (loss of $(997) million on an actual exchange rate basis). The swing in result largely reflects changes in short-term fluctuations in interest rates. There was a modest decrease in interest rates in 2023 compared with interest rates increasing significantly in 2022.

Adjusted shareholders' equity increased to $37.3 billion (31 December 2022: $35.2 billion on an actual exchange rate basis), equivalent to 1,356 cents per share (31 December 2022: 1,280 cents per share on an actual exchange rate basis), driven by an increase in IFRS shareholders' equity (up 7 per cent) and an increase in the Contractual Service Margin (CSM) (up 5 per cent). The CSM benefited from the contribution from new business and unwind. Using a longer-term normalised return for Variable Fee Approach (VFA) business, the unwind and new business contribution would have exceeded the release in the period by $1.7 billion, equivalent to a net increase of 9 per cent in the CSM compared with the start of year position.

Our Group's regulatory capital position, free surplus and central liquidity positions remain robust. The Group's leverage remains near the bottom of our target range at 20 per cent, estimated on a Moody's basis.

The Group capital adequacy requirements are aligned with the established EEV and free surplus framework by comparing the total eligible Group capital resources with the Group's Prescribed Capital Requirement (GPCR). At 31 December 2023, the estimated shareholder surplus above the GPCR was $16.1 billion (31 December 2022: $15.6 billion on an actual exchange rates basis) and cover ratio 295 per cent (31 December 2022: 307 per cent before allowing for the debt redemption in January 2023 and 302 per cent after the redemption).

Supported by a clear and disciplined capital allocation policy, the Group is well positioned, with considerable financial flexibility including leverage capacity, to take advantage of the growth opportunities ahead. In 2023, we have allocated capital to investing in higher new business at attractive rates of return, in developing our customer, distribution, health and technology capabilities and we intend to deploy $1billion as part of our updated strategy. In line with our capital allocation priorities (as set out in the Capital Management section below) excess capital, if and when it emerges, would be returned to shareholders.

The Group's dividend policy is unchanged and described later in this report. Recognising the strong conviction we have in the Group's strategy, when determining the annual dividend we look through the investments in new business and investments in capabilities. The Board has approved a second interim dividend of 14.21cents per share (2022: 13.04 cents per share up 9 per cent). When this is combined with the first interim dividend the Group's total 2023 dividend is 20.47 cents per share (2022: 18.78 cents per share), an increase of 9 per cent. The Board intends to maintain this approach, and continues to expect the 2024 annual dividend to grow in the range 7 - 9 per cent.

The Group is carrying out a number of actions to support the development of liquidity in the trading of its shares on the Hong Kong Stock Exchange, following its capital raise in 2021. In 2024, the Group is actively exploring the use of scrip dividends, including issuance only on the Hong Kong line and the dilutive effect being neutralised by a share buy back on the London line.

The Group executed a $41 million share repurchase programme in January 2024 to neutralise the 2023 Employee and agent share scheme issuance. It intends to make further repurchases in the future to offset the expected dilution from the vesting of awards under employee and agent share schemes.

We believe that the Group's performance during the year positions us well, as we implement the new strategy, to meet our financial objectives to grow new business profit and consequently in-force insurance and asset management operating free surplus generated, as detailed in the strategic and operating review.

Financial review continued

IFRS profit

	Actual exchange rate			Constant exchange rate	
	2023 $m	2022 $m	Change %	2022 $m	Change %
CPL	**368**	271	36	258	43
Hong Kong	**1,013**	1,162	(13)	1,162	(13)
Indonesia	**221**	205	8	200	11
Malaysia	**305**	340	(10)	329	(7)
Singapore	**584**	570	2	585	—
Growth markets and other	**746**	728	2	715	4
Insurance business	**3,237**	3,276	(1)	3,249	—
Asset management	**280**	260	8	255	10
Total segment profit	**3,517**	3,536	(1)	3,504	—
Other income and expenditure:					
Investment return and other items	**(21)**	(44)	52	(44)	52
Interest payable on core structural borrowings	**(172)**	(200)	14	(200)	14
Corporate expenditure	**(230)**	(276)	17	(277)	17
Other income and expenditure	**(423)**	(520)	19	(521)	19
Restructuring and IFRS 17 implementation costs	**(201)**	(294)	32	(293)	31
Adjusted operating profit	**2,893**	2,722	6	2,690	8
Non-operating items:					
Short-term fluctuations in investment returns	**(774)**	(3,420)	77	(3,404)	77
(Loss) gain attaching to corporate transactions	**(22)**	55	n/a	55	n/a
Profit (loss) before tax attributable to shareholders	**2,097**	(643)	n/a	(659)	n/a
Tax charge attributable to shareholders' returns	**(385)**	(354)	(9)	(346)	(11)
Profit (loss) for the year	**1,712**	(997)	n/a	(1,005)	n/a

IFRS earnings per share

	Actual exchange rate			Constant exchange rate	
	2023 cents	2022 cents	Change %	2022 cents	Change %
Based on adjusted operating profit, net of tax and non-controlling interest	**89.0¢**	79.4¢	12	78.5¢	13
Based on profit (loss) for the year, net of non-controlling interest	**62.1¢**	(36.8)¢	n/a	(37.0)¢	n/a

Adjusted operating profit reflects that the assets and liabilities of our insurance businesses are held for the longer term and the Group believes that the trends in underlying performance are better understood if the effects of short-term fluctuations in market conditions, such as changes in interest rates or equity markets, are excluded.

Group IFRS adjusted operating profit was $2,893 million, up by 8 per cent, largely reflecting a 10 per cent increase in profit generated by Eastspring, our asset management business, and lower central costs. Adjusted operating profit for insurance business was at similar levels of 2022, with economic movements in 2022 reducing the level of longer-term net investment result (which is based on opening asset values), largely offset by a higher insurance service result.

Detailed discussion of IFRS financial performance by segment, including the detailed analysis of asset management business is presented in the section on 'Performance by market'.

Insurance business analysis of operating profit drivers

The table below sets out the key drivers of the Group's adjusted operating profit for the insurance business as described in note B1.3 of the IFRS financial results.

	Actual exchange rate			Constant exchange rate	
	2023 $m	2022 $m	Change %	2022 $m	Change %
Adjusted release of CSM [1]	**2,205**	2,265	(3)	2,242	(2)
Release of risk adjustment	**218**	179	22	178	22
Experience variances	**(118)**	(66)	(79)	(62)	(90)
Other insurance service result	**(109)**	(204)	47	(195)	44
Adjusted insurance service result	**2,196**	2,174	1	2,163	2
Net investment result on longer-term basis	**1,241**	1,290	(4)	1,271	(2)
Other insurance income and expenditure	**(122)**	(98)	(24)	(100)	(22)
Share of related tax charges from joint ventures and associates	**(78)**	(90)	13	(85)	8
Insurance business	**3,237**	3,276	(1)	3,249	—

The release of CSM is the principal source of our IFRS 17 insurance business adjusted operating profit. The adjusted CSM release[1] in FY2023 of $2,205 million (2022: $2,242 million) equates to an annualised release rate of circa 9.5 per cent, broadly similar to the release rate seen in 2022 and broadly consistent with the 2023 release expected as at the end of 2022.

The release of the risk adjustment of $218 million (2022: $178 million) represents the expiry of non-market risk in the period. As expected, this release is a relatively stable proportion of the opening balance as compared with the corresponding rate in the prior year.

Experience variances of $(118) million (2022: $(62) million) comprise largely of claims and expense variances (those impacting past or current service rather than future service which is reflected in CSM). A small element of the elevated expenses reflects the investment in our strategic pillars consistent with our Strategy.

The other insurance service result of $(109) million (2022: $(195) million) largely reflects losses on contracts that are described under IFRS 17 as 'onerous', either at inception or because changes in the period result in the CSM being exhausted. It does not mean these contracts are not profitable overall as the CSM does not allow for real-world returns, which are earned over time. The losses in 2022 were largely as a result of adverse economic conditions which have stabilised in 2023.

The net investment result of $1,241 million (2022: $1,271 million) largely reflects the long-term return on assets backing equity and capital and long-term spreads on business not accounted for under the variable fee approach. The long-term rates are applied to the opening value of assets and so falls in asset values over 2022, following the adverse market movements in 2022 saw this source of income reduce in 2023. Growth in the General Measurement Model asset base from new business in recent periods and renewal premiums offset some of this reduction.

Other income and expenditure of $(122) million (2022: $(100) million) mainly relates to expenses that are not directly related to an insurance contract as defined under IFRS 17.

Movement in Contractual Service Margin

The CSM balance represents a discounted stock of unearned profit which will be released over time as services are provided. This balance increases due to additions from profitable new business contracts sold in the period and the unwind of the in-force book. It is also updated for any changes in expected future profitability, where applicable, including the effect of short-term market fluctuations for business measured using variable fee approach. The release of the CSM, which is the main driver of adjusted operating profit, is then calculated after allowing for these movements.

In a normalised market environment, if the contribution from new business and the unwind of the CSM balance is greater than the rate at which services are provided, then the CSM balance will increase. The new business added to the CSM will therefore be an important factor in building the CSM and we expect the compounding effect from the new business added to the CSM over time to support growth in IFRS 17 adjusted operating profit in the future. The objectives announced in August for EEV new business profit growth will act to support such CSM growth. As we grow new business profit, in line with our recently announced financial objectives, we would expect this to generate growth of the CSM and hence lead to adjusted operating profit growth over time.

The table below sets out the movement of CSM over the period.

Contractual Service Margin Net of reinsurance

	2023 $m
Net Opening Balance at 1 Jan	**19,989**
New contracts in the year	**2,348**
Unwind*	**1,563**
Balance before variances, effect of foreign exchange and CSM release	**23,900**
Economic and other variances	**(619)**
CSM balance before release	**23,281**
Release of CSM to income statement	**(2,208)**
Effect of movements in exchange rates	**(61)**
Net balance at the end of the period	**21,012**

* The unwind of CSM presented in this table reflects the accretion of interest on general measurement model contracts, as presented in note C3.2 to the IFRS financial results, together with the unwind of the CSM related to variable fee approach contracts on a long-term normalised basis. This differs from the presentation in note C3.2 to the IFRS financial results by reallocating $1,303 million from economic and other variances to unwind.

Profitable new business in 2023 grew the CSM by $2,348 million which combined with the unwind of the CSM balance shown in the table above of $1,563 million, increased the CSM by $3,911 million. This increase exceeded the release of the CSM to the income statement in the period of $(2,208) million, demonstrating the strength of our franchise and its ability to deliver future growth in CSM and ultimately adjusted operating profit.

Other movements in the CSM reflect economic and other variances to update the CSM for changes in expected future profitability including the impact of short term market effects of business accounted for under the variable fee approach. In 2023 'economic and other variances' includes $117 million for new riders added to existing base savings contracts. The incremental value from such sales is not included within the new business contribution to CSM because our IFRS17 approach considers insurance contracts as a whole. In contrast, EEV will include this amount as new business. The remainder of the variance includes the effects of the operating variances and assumption changes on future profits and the impact of a reduction in interest rates and changes in equity indices. Movements in exchange rates had a negative impact of $(61) million on the closing CSM. Overall the CSM grew by 5 per cent, or 9 per cent excluding the effect of economic and other variances and exchange rates.

Other income and expenditure

Central costs (before restructuring and IFRS 17 implementation costs) were 19 per cent lower in 2023 as compared to the prior year, reflecting the benefit of the targeted reduction of head office costs and the redemption of a senior debt instrument in January 2023. Interest payable on core structural borrowings reduced by $28 million in 2023 compared with the prior year. Total head office expenditure was $(230) million (2022: ($277) million). Net investment return and other items improved by $23 million from increased investment returns on Group Treasury following the increase in interest rates.

Restructuring costs of $(201) million (2022: $(293) million) reflect the Group's project to implement and embed IFRS 17, and one-off costs associated with regulatory and other initiatives in our business. IFRS 17 costs are expected to decrease but in 2024 will be replaced by investment to enhance Eastspring's operating model and improve our back office efficiency and scalability. From the end of 2024, restructuring costs are expected to revert over time to the lower levels typically incurred historically.

IFRS basis non-operating items

Non-operating items in the year consist of negative short-term fluctuations in investment returns of $(774) million (2022: $(3,404) million) and $(22) million of costs associated with corporate transactions (2022: gain of $55 million).

These short-term fluctuations principally arise from our business in the Chinese Mainland reflecting negative equity returns as well as the impact from lower interest rates on the discount rate for General Measurement Model (GMM) best estimate insurance liabilities.

IFRS effective tax rates

In 2023, the effective tax rate on adjusted operating profit was 15 per cent (2022: 20 per cent). The decrease from the 2022 effective tax rate primarily reflects the recognition of a deferred tax asset in relation to historical tax losses, due to an increase in forecast taxable profit in the UK tax group, together with a reduction from 2022 to 2023 in head office costs for which no tax credit is recognised.

The effective tax rate on total IFRS profit in 2023 was 18 per cent (2022: negative 55 per cent), reflecting a reduction in the level of investment losses on which no tax credit is recognised.

During 2023, jurisdictions around the world, including some relevant to Prudential, commenced implementation of the OECD global minimum tax rules. For those jurisdictions where the rules will apply to Prudential for the 2024 financial period, management's assessment is that the new tax rules (which involve comparing a jurisdiction's effective tax rate to the global minimum effective tax rate of 15 per cent) are not expected to have a material impact on the IFRS tax charge for 2024. From 2025 onwards, the new tax rules are expected to be effective in Hong Kong (where Prudential plc is now tax resident), at which point the new rules will apply to the whole Prudential group. Management continues to assess the likely impact on the 2025 and subsequent financial periods and guidance on the potential impact will be provided in due course.

Total tax contributions

The Group continues to make significant tax contributions in the jurisdictions in which it operates, with $969 million remitted to tax authorities in 2023, slightly lower than the equivalent amount of $1,009 million remitted in 2022 (on an actual exchange rate basis).

Tax strategy

The Group publishes its tax strategy annually which, in addition to complying with the mandatory UK (Finance Act 2016) requirements, also includes a number of additional disclosures which provide insight into the Group's tax contributions. An updated version of the tax strategy, including 2023 data, will be available on the Group's website before 31 May 2024.

Shareholders' equity

Group IFRS shareholders' equity

	2023 $m	2022 $m
Profit /(loss) for the year	**1,712**	(997)
Less non-controlling interest	**11**	10
Profit (loss) after tax for the year attributable to shareholders	**1,701**	(1,007)
Exchange movements, net of related tax	**(124)**	(603)
External dividends	**(533)**	(474)
Other movements	**48**	(121)
Net increase/(decrease) in shareholders' equity	**1,092**	(2,205)
Shareholders' equity at beginning of the year		—
As previously reported	**16,731**	17,088
Effect of initial application of IFRS 17 & IFRS 9, net of tax	**—**	1,848
Shareholders' equity at end of the year	**17,823**	16,731
Shareholders' value per share[3]	**647¢**	608¢
Adjusted shareholders equity[3]	**37,346**	35,211

Group IFRS shareholders' equity increased from $16.7 billion at the start of 2023 (after allowing for the effects of IFRS 17 and IFRS 9) to $17.8 billion at 31 December 2023. This largely reflects profit generated during the period, offset by dividend payments of $(0.5) billion, and exchange movements of $(0.1) billion.

In 2023, the Group completed the disposal of its remaining interest in Jackson, the Group's former US business, for cash of $273 million. This gave rise to a gain of $8 million compared to the carrying value of this interest at 31 December 2022 that is included in other movements. Following the adoption of IFRS 9, the income statement is unaffected by this transaction.

The IFRS adjusted shareholders' equity represents the sum of Group IFRS shareholders' equity and CSM, net of tax. Group's IFRS adjusted equity increased to $37.3 billion at 31 December 2023 (31 December 2022: $35.2 billion) reflecting increases in IFRS shareholders' equity and the CSM. A full reconciliation to shareholders' equity is included in note C3.1 of the IFRS financial results.

EEV basis results

EEV financial results

	Actual exchange rate			Constant exchange rate	
	2023 $m	2022 $m	Change %	2022 $m	Change %
New business profit	**3,125**	2,184	43	2,149	45
Profit from in-force business	**1,779**	2,358	(25)	2,345	(24)
Operating profit from insurance business	**4,904**	4,542	8	4,494	9
Asset management	**254**	234	9	230	10
Other income and expenditure	**(612)**	(824)	26	(823)	26
Operating profit for the year	**4,546**	3,952	15	3,901	17
Non-operating results	**(834)**	(7,523)	89	(7,530)	89
Profit (loss) for the year	**3,712**	(3,571)	n/a	(3,629)	n/a
External dividends	**(533)**	(474)			
Foreign exchange movements	**(134)**	(1,195)			
Other movements	**21**	(160)			
Net increase (decrease) in EEV shareholders' equity	**3,066**	(5,400)			
EEV shareholders' equity at 1 Jan after effect of HKRBC	**42,184**	47,584			
EEV shareholders' equity at end of year	**45,250**	42,184			
% New business profit/average EEV shareholders' equity for insurance business operations*	**8%**	5%			
% Operating profit/average EEV shareholders' equity	**10%**	9%			

* Excluding goodwill attributable to equity holders

EEV shareholders' equity

	31 Dec 2023 $m	31 Dec 2022 $m
Represented by:		
CPL	**3,038**	3,259
Hong Kong	**17,702**	16,576
Indonesia	**1,509**	1,833
Malaysia	**3,709**	3,695
Singapore	**7,896**	6,806
Growth markets and other	**7,674**	6,688
Embedded value from insurance business excluding goodwill	**41,528**	38,857
Asset management and other excluding goodwill	**2,955**	2,565
Goodwill attributable to equity holders	**767**	762
Group EEV shareholders' equity	**45,250**	42,184
EEV shareholders' equity per share	**1,643¢**	1,534¢

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

	Actual exchange rate						Constant exchange rate			
	2023 $m		2022 $m		Change %		2022 $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	**534**	**222**	884	387	(40)	(43)	840	368	(36)	(40)
Hong Kong	**1,966**	**1,411**	522	384	277	267	523	384	276	267
Indonesia	**277**	**142**	247	125	12	14	240	122	15	16
Malaysia	**384**	**167**	359	159	7	5	347	154	11	8
Singapore	**787**	**484**	770	499	2	(3)	791	512	(1)	(5)
Growth markets and other	**1,928**	**699**	1,611	630	20	11	1,546	609	25	15
Total	**5,876**	**3,125**	4,393	2,184	34	43	4,287	2,149	37	45
Total new business margin		**53%**		50%				50%		

Group EEV operating profit increased by 17 per cent to $4,546 million, reflecting a 9 per cent increase in the operating profit for the insurance business, largely reflecting higher new business profit, a 10 per cent increase in the operating profit for the asset management business and an improvement in central costs. The operating return on average embedded value was 10 per cent (2022: 9 per cent).

The operating profit from the insurance business increased to $4,904 million, largely reflecting a 45 per cent increase in new business profit to $3,125 million following growth in APE sales, partly offset by a (24) per cent fall in profit from in-force business to $1,779 million. The profit from in-force business is driven by the expected return and the effects of operating assumption changes and experience variances. The expected return was lower at $2,122 million (2022: $2,531 million), reflecting a lower opening balance to which the expected return is applied, as a result of economic movements in 2022. Operating assumption changes and experience variances were negative $(343) million on a net basis compared with $(186) million in 2022. This reflects short-term industry-wide increases in lapses in Vietnam, following negative consumer sentiment in the wider industry, along with unfavourable morbidity experience on some medical reimbursement products following the removal of Covid-19 restrictions. We have also continued to invest in our strategic capabilities.

The non-operating loss of $(834) million (2022: loss of $(7,530) million) is largely driven by the combined impact of negative equity returns in Chinese Mainland and Hong Kong, with interest rate falls and narrowing credit spreads in many of our markets in the year. These effects were more muted than in the prior year.

Overall, EEV shareholders' equity increased to $45.3 billion at 31 December 2023 (31 December 2022: $42.2 billion). Of this, $41.5 billion (31 December 2022: $38.9 billion) relates to the insurance business operations, excluding goodwill attributable to equity shareholders. This amount includes our share of our India associate valued using embedded value principles. The market capitalisation of this associate at 31 December 2023 was circa $9.3 billion, which compares with a publicly reported embedded value of circa $4.6 billion at 30 September 2023.

EEV shareholders' equity on a per share basis at 31 December 2023 was 1,643 cents (31 December 2022: 1,534 cents).

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 (together with its branch in Macau) and Taiwan.

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

	Gross premiums earned*		New business profit	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Total Greater China †	**12,859**	13,103	**1,870**	912
Total Group†	**26,221**	27,783	**3,125**	2,184
Percentage of total	**49 %**	47 %	**60 %**	42 %

Comparatives stated on a AER basis

* The gross earned premium includes the Group's share of amounts earned from joint ventures and associates as disclosed in note II (vi) of the Additional financial information.

† Total Greater China represents the amount contributed by the insurance businesses 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 insurance business joint ventures and associates.

Capital management

We aim to invest capital to write new business that generates three times the amount invested, at internal rates of return above 25 per cent with less than four-year payback periods. Our ability to invest at attractive returns will drive our capital allocation priorities which are as follows:

- We will continue to target resilient capital buffers such that the Group shareholder coverage ratio is above 150 per cent of the shareholder Group Prescribed Capital Requirement to ensure the Group can withstand volatility in markets and operational experience;
- Otherwise, our priority for allocating capital will be re-investing in new business. Our resilient capital position allows us to prioritise investment in new business with an aim to write quality new business while managing the initial capital strain and capturing the economic value at attractive returns;
- Our next priority is investing around $1 billion in core capabilities, primarily in the areas of Customer, Distribution, Health and Technology;
- Our dividend policy remains linked to net operating free surplus generation which is calculated after investment in new business and capability investment;
- We will invest in inorganic opportunities where there is good strategic fit; and
- All investment decisions will be made against the alternative of returning surplus capital to shareholders but given the abundance of organic and inorganic opportunities ahead of us, we are confident that in the near-term we will be reinvesting capital at attractive returns.

To generate capital to allocate to these priorities we will also prioritise managing our in-force embedded value to ensure maximum conversion into free surplus over time. Based on the economic and other assumptions and methodology that underpinned our EEV reporting at the end of 2023, we expect to transfer over $9 billion by end of 2027 from VIF and required capital to operating free surplus generated from our in-force insurance business at the end of 2023. This is before allowing for the incremental effect of new business and any return on the underlying assets backing that surplus. We will drive improved emergence of free surplus by managing claims, expense and persistency in each market. This additional free surplus will enable our continued investment in profitable new business at attractive returns, as well as in our strategic capabilities, and support payments of returns to shareholders including dividends.

Group free surplus generation

Free surplus is the metric we use to measure the internal cash generation of our business operations and broadly reflects the amount of money available to our operational businesses for investing in new business, strengthening our capacity and capabilities to grow the business, and potentially paying returns to the Group. For our insurance businesses it largely represents the Group's available regulatory capital resources after allowing for the prescribed required regulatory capital held to support the policies in issue, with a number of adjustments so that the free surplus better reflects resources potentially available for distribution to the Group. For our asset management businesses, Group holding companies and other non-insurance companies, the measure is based on IFRS net assets with certain adjustments, including to exclude accounting goodwill and to align the treatment of capital with our regulatory basis.

Operating free surplus generation represents amounts emerging from the in-force business during the year, net of amounts reinvested in writing new business. For asset management businesses, it equates to post-tax adjusted operating profit for the year. Further information is contained in the EEV financial results.

Analysis of movement in Group free surplus

	Actual exchange rate			Constant exchange rate	
	2023 $m	2022 $m	Change %	2022 $m	Change %
Expected transfer from in-force business and return on existing free surplus	**2,869**	2,753	4	2,711	6
Changes in operating assumptions and experience variances	**(383)**	(227)	(69)	(216)	(77)
Operating free surplus generated from in-force insurance business	**2,486**	2,526	(2)	2,495	—
Asset management	**254**	234	9	230	10
Operating free surplus generated from in-force insurance and asset management business	**2,740**	2,760	(1)	2,725	1
Investment in new business	**(733)**	(567)	(29)	(552)	(33)
Operating free surplus generated from insurance and asset management business	**2,007**	2,193	(8)	2,173	(8)
Central costs and eliminations (net of tax):					
Net interest paid on core structural borrowings	**(172)**	(200)	14	(200)	14
Corporate expenditure	**(230)**	(276)	17	(277)	17
Other items and eliminations	**(18)**	(66)	73	(66)	73
Restructuring and IFRS 17 implementation costs (net of tax)	**(192)**	(277)	31	(275)	30
Net Group operating free surplus generated	**1,395**	1,374	2	1,355	3
Non-operating and other movements, including foreign exchange	**(206)**	(2,371)			
External cash dividends	**(533)**	(474)			
Increase (decrease) in Group free surplus before net subordinated debt redemption	**656**	(1,471)			
Net subordinated debt redemption	**(421)**	(1,699)			
Increase (decrease) in Group free surplus before amounts attributable to non-controlling interests	**235**	(3,170)			
Change in amounts attributable to non-controlling interests	**(9)**	(10)			
Free surplus at beginning of year	**12,229**	15,409			
Free surplus at end of year	**12,455**	12,229			
Free surplus at end of year excluding distribution rights and other intangibles	**8,518**	8,390			

Operating free surplus generated from in-force insurance and asset management business was broadly flat at $2,740 million when compared with the prior year. The cost of investment in new business increased by 33 per cent to $(733) million largely reflecting the increase in APE sales of 37 per cent. As a consequence, the Group generated an operating free surplus from insurance and asset management operations before restructuring costs of $2,007 million, down (8) per cent compared to 2022.

After allowing for lower central costs and restructuring and IFRS 17 costs, total Group free surplus generation was up 3 per cent to $1,395 million.

After allowing for short-term market and currency losses, the redemption of debt (which is treated as capital for free surplus purposes), and the external dividend payment, free surplus at 31 December 2023 was $12.5 billion as compared to $12.2 billion at the start of the year. Excluding distribution rights and other intangibles, free surplus was $8.5 billion (31 December 2022: $8.4 billion).

Dividend

Reflecting the Group's capital allocation priorities, a portion of capital generation will be retained for reinvestment in organic growth opportunities and for investment in capabilities, 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, and will be set taking into account financial prospects, investment opportunities and market conditions.

Recognising the strong conviction we have in the Group's new strategy, the Board indicated alongside the strategy update in August 2023, that when determining the annual dividend, it intended to look through the investments in new business and investments in capabilities, and expected the annual dividend to grow in the range 7 – 9 per cent per annum over 2023 and 2024.

The Board has applied this approach to determining the 2023 second interim cash dividend, and has approved a 2023 second interim cash dividend of 14.21 cents per share (2022: 13.04 cents per share). Combined with the first interim cash dividend of 6.26 cents per share (2022: 5.74 cents per share), the Group's total 2023 cash dividend is 20.47 cents per share (2022: 18.78 cents per share), an increase of 9 per cent.

The Board intends to maintain this approach, and continues to expect the 2024 annual dividend to grow in the range 7 - 9 per cent.

Group capital position

The Prudential Group applies the Insurance (Group Capital) Rules set out in the GWS Framework issued by the Hong Kong Insurance Authority ('HKIA') to determine Group regulatory capital requirements (both minimum and prescribed levels). The GWS Group capital adequacy requirements require that total eligible Group capital resources are not less than the GPCR and that GWS Tier 1 group capital resources are not less than the GMCR. More information is set out in note I(i) of the Additional financial information.

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

	31 Dec 2023			31 Dec 2022		
	Shareholder	**Policyholder***	**Total†**	Shareholder	Policyholder*	Total†
Group capital resources ($bn)	**24.3**	**14.3**	**38.6**	23.2	12.6	35.8
of which: Tier 1 capital resources ($bn)	**17.1**	**1.2**	**18.3**	15.9	1.5	17.4
Group Minimum Capital Requirement ($bn)	**4.8**	**1.1**	**5.9**	4.4	0.9	5.3
Group Prescribed Capital Requirement ($bn)	**8.2**	**11.4**	**19.6**	7.6	10.1	17.7
GWS capital surplus over GPCR ($bn)	**16.1**	**2.9**	**19.0**	15.6	2.5	18.1
GWS coverage ratio over GPCR (%)	**295 %**		**197 %**	307 %		202 %
GWS Tier 1 surplus over GMCR ($bn)			**12.4**			12.1
GWS Tier 1 coverage ratio over GMCR (%)			**313 %**			328 %

* This allows for any associated diversification impacts between the shareholder and policyholder positions reflected in total company results where relevant.
† The total company GWS coverage ratio over GPCR presented above represents the eligible group capital resources coverage ratio as set out in the GWS framework while the total company GWS tier 1 coverage ratio over GMCR represents the tier 1 capital coverage ratio.

As at 31 December 2023, the estimated shareholder GWS capital surplus over the GPCR is $16.1 billion (31 December 2022: $15.6 billion), representing a coverage ratio of 295 per cent (31 December 2022: 307 per cent) and the estimated total GWS capital surplus over the GPCR is $19.0 billion (31 December 2022: $18.1 billion) representing a coverage ratio of 197 per cent (31 December 2022: 202 per cent). During January 2023 the Group redeemed $0.4 billion of senior debt equivalent to a reduction of 5 percentage points to the shareholders' GWS coverage ratio over GPCR measured at 31 December 2022 and a 2 percentage points reduction to total GWS coverage ratio over GPCR measured at the same date.

Operating capital generation in 2023 was $1.4 billion after allowing for central costs and the investment in new business. This was offset by the payment of external dividends of $(0.5) billion.

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

Financing and liquidity

The Group manages its leverage on a Moody's total leverage basis, which takes into account gross debt, including commercial paper, and also allows for a proportion of the surplus within the Group's with-profits funds. The Group's leverage target is to be between 20 and 25 per cent on a Moody's total leverage basis over the medium term. Moody's have not finalised how they will calculate leverage under IFRS 17 but are consulting on a proposal to consider up to 50 per cent of any company's CSM as equity. This has yet to be incorporated into Moody's formal methodology and hence has not been incorporated into the Group's target above. At 31 December 2023, we estimate that our Moody's total leverage was 20 per cent[2] (31 December 2022: 21 per cent[2], before allowing for the £300 million senior bonds redeemed in January 2023). This would reduce to circa 14 per cent (31 December 2022: 15 per cent, before allowing for the £300 million senior bonds redeemed in January 2023) if a 50 per cent equity credit for the CSM was provided.

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

Net core structural borrowings of shareholder-financed businesses

	31 Dec 2023 $m			31 Dec 2022 $m		
	IFRS basis	**Mark-to-market value**	**EEV basis**	IFRS basis	Mark-to-market value	EEV basis
Borrowings of shareholder-financed businesses	**3,933**	**(274)**	**3,659**	4,261	(427)	3,834
Less: holding company cash and short-term investments	**(3,516)**	**—**	**(3,516)**	(3,057)	—	(3,057)
Net core structural borrowings of shareholder-financed businesses	**417**	**(274)**	**143**	1,204	(427)	777
Moody's total leverage	**20%**			21%		

The total borrowings of the shareholder-financed businesses were $3.9 billion at 31 December 2023 (31 December 2022: $4.3 billion). The Group had central cash resources of $(3.5) billion at 31 December 2023 (31 December 2022: $(3.1) billion), resulting in net core structural borrowings of the shareholder-financed businesses of $0.4 billion at end of 31 December 2023 (31 December 2022: $1.2 billion). We have not breached any of the requirements of our core structural borrowings nor modified any of their terms during 2023.

On 20 January 2023 the Group redeemed £300 million ($371 million) senior bonds as they reached their maturity, and on 10 July 2023 the Group redeemed a €20m ($22 million) medium-term note as it fell due on 10 July 2023. In addition, the Group has a $750 million perpetual note that reached its first call date in January 2023 at which time the Group's management elected not to call it. We retain the right to call this security at par on a quarterly basis hereafter. The Group's remaining securities have contractual maturities that fall between 2029 and 2033. Further analysis of the maturity profile of the borrowings is presented in note C5.1 to the IFRS financial results.

On 2 March 2023 the Group's parent company, Prudential plc, transferred all of its borrowings to a wholly-owned indirect subsidiary, Prudential Funding (Asia) plc. Prudential plc has provided a guarantee to holders of the debt instruments in the event of default by Prudential Funding (Asia) plc. Other terms of the borrowings, and the value recognised by the Group, were unchanged by this transfer.

In addition to its net core structural borrowings of shareholder-financed businesses set out above, the Group has structures in place to enable access to 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 $699 million in issue at 31 December 2023 (31 December 2022: $501 million).

As at 31 December 2023, the Group had a total of $2.6 billion of undrawn committed facilities, expiring in 2026. Apart from small drawdowns to test the process, these facilities have never been drawn, and there were no amounts outstanding at 31 December 2023. The Group has reviewed its requirements for committed facilities and after the balance sheet date on15 February 2024, the Group renewed its undrawn committed facilities for a total of $1.6 billion expiring 2029.

Cash remittances

The definition of holding company cash and short-term investments was updated, with effect from 31 December 2022, following the combination of the Group's London office and Asia regional office into a single Group Head Office in 2022. The inclusion of amounts previously managed on a regional basis increased the holding company cash and short-term investment by $0.9 billion at 31 December 2022.

Holding company cash flow

	Actual exchange rate		
	2023 $m	2022 $m	Change %
Net cash remitted by businesses units	**1,611**	1,304	24
Net interest paid	**(51)**	(204)	75
Corporate expenditure	**(271)**	(232)	(17)
Centrally funded recurring bancassurance fees	**(182)**	(220)	17
Total central outflows	**(504)**	(656)	23
Holding company cash flow before dividends and other movements	**1,107**	648	71
Dividends paid	**(533)**	(474)	(12)
Operating holding company cash flow after dividends but before other movements	**574**	174	230
Other movements			
Issuance and redemption of debt	**(393)**	(1,729)	77
Other corporate activities	**226**	248	(9)
Total other movements	**(167)**	(1,481)	89
Net movement in holding company cash flow	**407**	(1,307)	n/a
Cash and short-term investments at the beginning of the year	**3,057**	3,572	
Foreign exchange and other movements	**52**	(113)	
Inclusion of amounts at 31 Dec from additional centrally managed entities	**—**	905	
Cash and short-term investments at the end of the year	**3,516**	3,057	

Remittances from our businesses were $1,611 million (2022: $1,304 million).The remittances are net of cash advanced to CPL, our joint venture business in the Chinese Mainland, of $176 million in anticipation of a future capital injection, as previously announced in December 2023. Remittances were used to meet central outflows of $(504) million (2022: $(656) million) and to pay dividends of $(533) million (2022: $(474) million).

Central outflows include net interest paid of $(51) million (2022: $(204) million), which is net of interest and similar income earned on central cash balances in 2023, largely on balances brought into the updated definition of holding company cash and short-term investments at the end of 2022. In addition, lower interest payments were made on core structural borrowings in 2023 as compared with the prior year.

Cash outflows for corporate expenditure of $(271) million (2022: $(232) million) include cash outflows for restructuring costs.

Other cash flow movements included net receipts from other corporate activities of $226 million (2022: $248 million) comprising largely of proceeds received from the sale of our remaining shares in Jackson Financial Inc. as well as dividend receipts. In 2023, the Group redeemed senior bonds as they reached their maturity at a cost of $393 million.

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

Notes

(1) Adjusted release of CSM reflects an adjustment to the release of CSM figure as shown in note C3.2 of the IFRS financial results of $(3) million (2022: $23 million) for the treatment adopted for adjusted operating purposes of combining losses on onerous contracts and gains on profitable contracts that can be shared across more than one annual cohort. See note B1.3 to the IFRS financial results for more information.
(2) Calculated with no adjustment for the value of contractual service margin in equity and with 50 per cent of the with-profits estate treated as equity.
(3) See note II of the Additional unaudited financial information for definition and reconciliation to IFRS balances.