

European Embedded Value (EEV) financial results

EEV results highlights	Page
Basis of preparation	1
Movement in Group EEV shareholders' equity	2
Movement in Group free surplus	4
	6

Notes on the EEV financial results

1	Analysis of new business profit and EEV for long-term business operations	8
2	Analysis of movement in net worth and value of in-force business for long-term business operations	9
3	Sensitivity of results for long-term business operations to alternative economic assumptions	11
4	EEV financial results for other (central) operations	12
5	Net core structural borrowings of shareholder-financed businesses	13
6	Methodology and accounting presentation	13
7	Assumptions	17
8	Insurance new business	19
9	Post balance sheet events	19
	Independent review report to Prudential plc	20

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 2023	Half year 2022				Full year 2022
	\$m	AER		CER		AER
		\$m	% change	\$m	% change	\$m
New business profit ^{note (i)}	1,489	1,098	36%	1,069	39%	2,184
Annual premium equivalent (APE) ^{note (i)}	3,027	2,213	37%	2,132	42%	4,393
New business margin (APE) (%)	49%	50%	(1)ppt	50%	(1)ppt	50%
Present value of new business premiums (PVNBP)	14,430	11,728	23%	11,435	26%	22,406
Operating free surplus generated ^{notes (i)(ii)}	1,024	1,224	(16)%	1,200	(15)%	2,193
EEV operating profit ^{notes (i)(iii)}	2,155	1,806	19%	1,761	22%	3,952
EEV operating profit, net of non-controlling interests	2,144	1,796	19%	1,751	22%	3,923
Operating return on average EEV shareholders' equity, net of non-controlling interests (%) ^{note (iv)}	10%	8%				9%
Closing EEV shareholders' equity, net of non-controlling interests	43,704	42,300	3%	41,907	4%	42,184
Closing EEV shareholders' equity, net of non-controlling interests per share (in cents)	1,588¢	1,539¢	3%	1,524¢	4%	1,534

Notes

- (i) Results are presented before deducting the amounts attributable to non-controlling interests. This presentation is applied consistently throughout this document, unless stated otherwise.
- (ii) 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.
- (iii) Group EEV operating profit is stated after restructuring and IFRS 17 implementation costs, centrally incurred costs and eliminations.
- (iv) Operating return on average EEV shareholders' equity is calculated as EEV operating profit for the period as a percentage of average EEV basis shareholders' equity. Half year profits are annualised by multiplying by two.

European Embedded Value (EEV) basis results

Basis of Preparation

IFRS profit for insurance contracts largely reflects the level of services provided for a given period. Unearned future profits expected on those same insurance contracts are contained in a separate liability called the contractual service margin. These future profits have been derived on a risk neutral basis, namely without allowing for the real world investment return that will be earned on the assets held. By contrast, EEV reflects all future profits, with no equivalent liability to the contractual service margin, but values those profits on a risk adjusted real world basis, namely allowing for the future investment returns that are expected to be earned by the assets held but uses a higher discount rate that allows for the uncertainties in these cash flows. The value of future new business is excluded from the embedded value. The EEV Principles provide consistent definitions of the components of EEV, a framework for setting assumptions and an approach to the underlying methodology and disclosures. The EEV Principles were designed to provide guidance and common principles that could be understood by both users and preparers alongside prescribing a minimum level of disclosures to enable users to understand an entity's methodology, assumptions and key judgements as well as the sensitivity of an entity's EEV to key assumptions. Results prepared under the EEV Principles represent the present value of the shareholders' interest in the post-tax future profits (generally on a local statutory basis) expected to arise from the current book of long-term business, after sufficient allowance has been made for the aggregate risks in the business. The shareholders' interest in the Group's long-term business is the sum of the shareholders' total net worth and the value of in-force business.

For the purposes of preparing EEV results, insurance joint ventures and associates are included at the Group's proportionate share of their embedded value and not at their market value. Asset management and other non-insurance subsidiaries, joint ventures and associates are included in the EEV results at the Group's proportionate share of IFRS shareholders' equity, with central Group debt shown on a market value basis. 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 2023, the TVOG is \$(308) million (31 December 2022: \$(151) million). The magnitude of the TVOG at 30 June 2023 would be approximately equivalent to a circa 7 basis point (31 December 2022: 3 basis point) increase in the weighted average risk discount rate.
- *Allowance for risk in the risk discount rates:* Risk discount rates are set equal to the risk-free rate at the valuation date plus product-specific allowances for market and non-market risks. Risks that are explicitly captured elsewhere, such as via the TVOG, are not included in the risk discount rates.

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

For example, for health and protection products, which represent 51 per cent of the value of in-force business (30 June 2022: 56 per cent, 31 December 2022: 51 per cent) and 37 per cent of new business profit (30 June 2022: 42 per cent, 31 December 2022: 43 per cent), the major sources of shareholder profits are underwriting profits or fixed shareholder charges which have low market risk sensitivity. The proportion of health and protection business varies with interest rates as well as the mix of business sold in the current period.

The construct of UK-style with-profits or similar participating funds in some business units (representing 27 per cent of the value of in-force (30 June 2022: 22 per cent, 31 December 2022: 26 per cent) and 12 per cent of new business profit (30 June 2022: 19 per cent, 31 December 2022: 18 per cent)) 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 (30 June 2022: 78 per cent, 31 December 2022: 77 per cent) 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 16 per cent of the value of in-force (30 June 2022: 15 per cent, 31 December 2022: 17 per cent) and 3 per cent of the value of new business profit (30 June 2022: 12 per cent, 31 December 2022: 11 per cent) which limits the impact on the overall risk discount rate.

The remaining parts of the business (6 per cent of the value of in-force business (30 June 2022: 7 per cent, 31 December 2022: 6 per cent) and 48 per cent of the value of new business (30 June 2022: 27 per cent, 31 December 2022: 28 per cent)) relate to other products not covered by the above. The high proportion of new business in the current period reflects the higher proportion of savings product in Hong Kong as the border reopened.

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 2023, the total allowance for non-market risk is equivalent to a \$(3.0) billion (31 December 2022: \$(2.8) billion) reduction, or around (7) per cent (31 December 2022: (7) per cent) of the embedded value.

Movement in Group EEV Shareholders' Equity

	2023 \$m			2022 \$m		
		Insurance and asset management operations	Other (central) operations	Group total	Half year	Full year
New business profit	1	1,489	–	1,489	1,098	2,184
Profit from in-force business	2	844	–	844	1,001	2,358
Long-term business		2,333	–	2,333	2,099	4,542
Asset management		132	–	132	117	234
Operating profit from long-term and asset management businesses		2,465	–	2,465	2,216	4,776
Other income (expenditure)	4	–	(221)	(221)	(263)	(542)
Operating profit (loss) before restructuring and IFRS 17 implementation costs		2,465	(221)	2,244	1,953	4,234
Restructuring and IFRS 17 implementation costs		(33)	(56)	(89)	(147)	(282)
Operating profit (loss) for the period		2,432	(277)	2,155	1,806	3,952
Short-term fluctuations in investment returns	2	323	(11)	312	(5,201)	(6,874)
Effect of changes in economic assumptions	2	(92)	–	(92)	(806)	(1,571)
Profit attaching to corporate transactions		–	–	–	62	57
Mark-to-market value movements on core structural borrowings	5	–	(38)	(38)	631	865
Non-operating results		231	(49)	182	(5,314)	(7,523)
Profit (loss) for the period		2,663	(326)	2,337	(3,508)	(3,571)
Non-controlling interests share of (profit) loss		(11)	–	(11)	(10)	(29)
Profit (loss) for the period attributable to equity holders of the Company		2,652	(326)	2,326	(3,518)	(3,600)
Equity items:						
Foreign exchange movements on operations		(496)	21	(475)	(1,198)	(1,195)
Intra-group dividends and investment in operations ^{note (i)}		(958)	958	–	–	–
Other external dividends		–	(361)	(361)	(320)	(474)
New share capital subscribed		–	4	4	–	(4)
Other movements ^{note (i)}		122	(96)	26	(248)	(127)
Net increase (decrease) in shareholders' equity		1,320	200	1,520	(5,284)	(5,400)
Shareholders' equity at beginning of period		40,262	1,922	42,184	47,355	47,355
Effect of HK RBC		–	–	–	229	229
Shareholders' equity at beginning of period after adoption of HK RBC		40,262	1,922	42,184	47,584	47,584
Shareholders' equity at end of period		41,582	2,122	43,704	42,300	42,184
Contribution to Group EEV:						
<u>At end of period:</u>						
Long-term business	2	40,179	–	40,179	38,965	38,857
Asset management and other	4	650	2,122	2,772	2,586	2,565
Shareholders' equity, excluding goodwill attributable to equity holders		40,829	2,122	42,951	41,551	41,422
Goodwill attributable to equity holders		753	–	753	749	762
Shareholders' equity at end of period		41,582	2,122	43,704	42,300	42,184
<u>At beginning of period:</u>						
Long-term business	2	38,857	–	38,857	44,646	44,646
Asset management and other	4	643	1,922	2,565	1,931	1,931
Shareholders' equity, excluding goodwill attributable to equity holders		39,500	1,922	41,422	46,577	46,577
Goodwill attributable to equity holders		762	–	762	778	778
Shareholders' equity at beginning of period		40,262	1,922	42,184	47,355	47,355

Movement in Group EEV Shareholders' Equity (continued)

	2023 \$m			2022 \$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 (iii)}					
<u>At end of period:</u>					
Based on shareholders' equity, net of goodwill attributable to equity holders	1,483¢	77¢	1,560¢	1,511¢	1,507¢
Based on shareholders' equity at end of period	1,511¢	77¢	1,588¢	1,539¢	1,534¢
<u>At beginning of period:</u>					
Based on shareholders' equity, net of goodwill attributable to equity holders	1,437¢	70¢	1,507¢	1,696¢	1,696¢
Based on shareholders' equity at beginning of period	1,464¢	70¢	1,534¢	1,725¢	1,725¢

	2023			2022	
	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 (iv)}					
Based on operating profit	2,155	2,144	78.2¢	65.6¢	143.4¢
Based on profit (loss) for the period	2,337	2,326	84.9¢	(128.6)¢	(131.6)¢

Notes

- (i) Intra-group dividends represent dividends that have been paid in the period. Investment in operations reflects movements in share capital.
- (ii) Other movements include reserve movements in respect of share-based payments, treasury shares and intra-group transfers between operations that have no overall effect on the Group's shareholders' equity.
- (iii) Based on the number of issued shares at 30 June 2023 of 2,753 million shares (30 June 2022: 2,749 million shares; 31 December 2022: 2,750 million shares).
- (iv) Based on weighted average number of issued shares of 2,740 million shares in half year 2023 (half year 2022: 2,736 million shares; full year 2022: 2,736 million shares).

Movement in Group Free Surplus

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

For insurance business, free surplus is generally based on (with adjustments including recognition of certain intangibles and other assets that may be inadmissible on a regulatory basis) the excess of the regulatory basis net assets (EEV total net worth) over the EEV capital required to support the covered business. For shareholder-backed businesses, the level of EEV required capital has been based on the Group Prescribed Capital Requirements (GPCR) used in our GWS reporting as set out in note 6.1(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.

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

	Note	2023 \$m			2022 \$m	
		Insurance and asset management operations	Other (central) operations	Group total	Half year	Full year
Expected transfer from in-force business		1,399	-	1,399	1,287	2,406
Expected return on existing free surplus		130	-	130	159	347
Changes in operating assumptions and experience variances		(223)	-	(223)	(60)	(227)
Operating free surplus generated from in-force long-term business	2	1,306	-	1,306	1,386	2,526
Investment in new business ^{note (i)}	2	(414)	-	(414)	(279)	(567)
Long-term business		892	-	892	1,107	1,959
Asset management		132	-	132	117	234
Operating free surplus generated from long-term and asset management businesses		1,024	-	1,024	1,224	2,193
Other income and expenditure	4	-	(221)	(221)	(263)	(542)
Restructuring and IFRS 17 implementation costs		(32)	(56)	(88)	(146)	(277)
Operating free surplus generated		992	(277)	715	815	1,374
Non-operating free surplus generated ^{note (ii)}		(53)	(13)	(66)	(1,310)	(1,924)
Free surplus generated for the period		939	(290)	649	(495)	(550)
Equity items:						
Net cash flows paid to parent company ^{note (iii)}		(1,024)	1,024	-	-	-
Other external dividends		-	(361)	(361)	(320)	(474)
Foreign exchange movements on operations		(110)	21	(89)	(247)	(316)
New share capital subscribed		-	4	4	-	(4)
Other movements and timing differences		188	(162)	26	(248)	(127)
Net movement in free surplus before non-controlling interest and before net subordinated debt issuance/redemption		(7)	236	229	(1,310)	(1,471)
Net subordinated debt redemption		-	(397)	(397)	(1,699)	(1,699)
Net movement in free surplus before non-controlling interest		(7)	(161)	(168)	(3,009)	(3,170)
Change in amounts attributable to non-controlling interests		(5)	-	(5)	(5)	(10)
Balance at the beginning of the period (as previously reported)		6,678	5,551	12,229	14,049	14,049
Effect of HK RBC		-	-	-	1,360	1,360
Balance at beginning of period		6,678	5,551	12,229	15,409	15,409
Balance at end of period		6,666	5,390	12,056	12,395	12,229
Representing:						
Free surplus excluding distribution rights and other intangibles		5,723	2,686	8,409	8,589	8,390
Distribution rights and other intangibles		943	2,704	3,647	3,806	3,839
Balance at end of period		6,666	5,390	12,056	12,395	12,229

Movement in Group Free Surplus (continued)

		2023 \$m			2022 \$m	
			Insurance and asset management operations	Other (central) operations	Group total	30 Jun
Contribution to Group free surplus:	Note				Group total	Group total
<i>At end of period:</i>						
Long-term business	2	6,016	–	6,016	5,960	6,035
Asset management and other	4	650	5,390	6,040	6,435	6,194
Total		6,666	5,390	12,056	12,395	12,229
<i>At beginning of period:</i>						
Long-term business	2	6,035	–	6,035	5,960	5,960
Asset management and other	4	643	5,551	6,194	8,089	8,089
Total		6,678	5,551	12,229	14,049	14,049

Notes

- (i) Free surplus invested in new business primarily represents acquisition costs and amounts set aside for required capital.
- (ii) Non-operating free surplus generated for other operations represents the post-tax IFRS basis short-term fluctuations in investment returns, the movement in the mark-to-market value adjustment on core structural borrowings which did not meet the qualifying conditions as set out in the Insurance (Group Capital) Rules and gain or loss on corporate transactions for other entities.
- (iii) 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.

Notes on the EEV financial results

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

Half year 2023						
	New business profit (NBP) \$m	Annual premium equivalent (APE) \$m	Present value of new business premiums (PVNBP) \$m	New business Margin (APE) %	New business Margin (PVNBP) %	Closing EEV shareholders' equity, excluding goodwill \$m
CPL (Prudential's share)	171	394	1,481	43%	12%	3,131
Hong Kong	670	1,027	5,364	65%	12%	17,496
Indonesia	61	150	629	41%	10%	1,763
Malaysia	73	185	915	39%	8%	3,557
Singapore	198	386	2,441	51%	8%	7,060
Growth markets and other	316	885	3,600	36%	9%	7,172
Total long-term operations	1,489	3,027	14,430	49%	10%	40,179

Half year 2022 (AER)						
	New business profit (NBP) \$m	Annual premium equivalent (APE) \$m	Present value of new business premiums (PVNBP) \$m	New business Margin (APE) %	New business Margin (PVNBP) %	Closing EEV shareholders' equity, excluding goodwill \$m
CPL (Prudential's share)	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 2022 (CER)						
	New business profit (NBP) \$m	Annual premium equivalent (APE) \$m	Present value of new business premiums (PVNBP) \$m	New business Margin (APE) %	New business Margin (PVNBP) %	Closing EEV shareholders' equity, excluding goodwill \$m
CPL (Prudential's share)	203	474	1,982	43%	10%	3,043
Hong Kong	211	227	1,771	93%	12%	17,269
Indonesia	50	106	424	47%	12%	1,944
Malaysia	66	165	809	40%	8%	3,328
Singapore	249	398	3,253	63%	8%	6,902
Growth markets and other	290	762	3,196	38%	9%	6,083
Total long-term operations	1,069	2,132	11,435	50%	9%	38,569

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

Note

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

Half year 2022 new business profit	1,098
Foreign exchange movement	(29)
Sales volume	449
Effect of changes in interest rates and other economic assumptions	(137)
Business mix, product mix and other items	108
Half year 2023 new business profit	1,489

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

	2023 \$m					2022 \$m	
	Half year					Half year	Full year
	Free surplus	Required capital	Net worth	Value of in-force business	Embedded value note (i)	Embedded value note (i)	Embedded value note (i)
Balance at beginning of period							
Balance at beginning of period (as previously reported)	6,035	5,556	11,591	27,266	38,857	44,646	44,646
Effect of HK RBC	–	–	–	–	–	229	229
Balance at beginning of period	6,035	5,556	11,591	27,266	38,857	44,875	44,875
New business contribution	(414)	228	(186)	1,675	1,489	1,098	2,184
Existing business – transfer to net worth	1,399	(178)	1,221	(1,221)	–	–	–
Expected return on existing business ^{note (ii)}	130	40	170	947	1,117	1,183	2,559
Changes in operating assumptions, experience variances and other items ^{note (iii)}	(223)	(5)	(228)	(45)	(273)	(182)	(201)
Operating profit before restructuring and IFRS 17 implementation costs	892	85	977	1,356	2,333	2,099	4,542
Restructuring and IFRS 17 implementation costs	(28)	–	(28)	(1)	(29)	(32)	(116)
Operating profit	864	85	949	1,355	2,304	2,067	4,426
Non-operating result ^{note (iv)}	(53)	(28)	(81)	312	231	(6,014)	(8,469)
Profit (loss) for the period	811	57	868	1,667	2,535	(3,947)	(4,043)
Non-controlling interests share of (profit) loss	(2)	–	(2)	(6)	(8)	(7)	(22)
Profit (loss) for the period attributable to equity holders of the Company	809	57	866	1,661	2,527	(3,954)	(4,065)
Foreign exchange movements	(103)	(44)	(147)	(333)	(480)	(1,156)	(1,146)
Intra-group dividends and investment in operations	(843)	–	(843)	–	(843)	(832)	(999)
Other movements ^{note (v)}	118	–	118	–	118	32	192
Balance at end of period	6,016	5,569	11,585	28,594	40,179	38,965	38,857

(i) Total embedded value

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

	2023 \$m		2022 \$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	29,636	28,442	28,126	
Cost of capital	(734)	(693)	(709)	
Time value of options and guarantees ^{note}	(308)	(368)	(151)	
Net value of in-force business	28,594	27,381	27,266	
Free surplus	6,016	5,960	6,035	
Required capital	5,569	5,624	5,556	
Net worth	11,585	11,584	11,591	
Embedded value	40,179	38,965	38,857	

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 6.1(d). At 30 June 2023, the TVOG is \$(308) million, with the substantial majority arising in Hong Kong. The TVOG reflects the variability of guaranteed benefit payouts across the range of economic scenarios around interest rates at the valuation date and represents some of the market risk for the key products in Hong Kong. As this market risk is explicitly allowed for via the TVOG, no further adjustment is made for this within the EEV risk discount rate, as described in note 6.1(h).

(ii) 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 6.2(c). The movement in this amount compared to the prior period from long-term operations is analysed as follows:

	\$m
Half year 2022 expected return on existing business	1,183
Foreign exchange movement	(22)
Effect of changes in interest rates and other economic assumptions	(81)
Growth in opening value of in-force business and other items	37
Half year 2023 expected return on existing business	1,117

(iii) 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 2023 was \$(273) million (half year 2022: \$(182) million; full year 2022: \$(201) million) comprising changes in operating assumptions of \$49 million in half year 2023 (half year 2022: \$61 million; full year 2022: \$32 million) and experience variances and other items of \$(322) million (half year 2022: \$(243) million; full year 2022: \$(233) million).

(iv) Non-operating results

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

	2023 \$m	2022 \$m	
	Half year	Half year	Full year
Short-term fluctuations in investment returns ^{note (i)}	323	(5,208)	(6,893)
Effect of change in economic assumptions ^{note (ii)}	(92)	(806)	(1,571)
Loss attaching to corporate transactions	–	–	(5)
Non-operating results	231	(6,014)	(8,469)

Notes

- (i) The credit of \$323 million in short-term fluctuations in investment returns mainly reflects higher expected investment returns given movements in interest rates, with many markets seeing a fall in the first half of 2023, and rising equity markets in some regions.
- (ii) The charge of \$(92) million for effect of change in economic assumptions primarily arises from decreases in interest rates in many markets with the effect of lower assumed fund earned rates that impact projected future cash flows being marginally greater than the benefit from future interest rates.

(v) Other reserve movements

Other movements include reserve movements in respect of 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 insurance 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 2023 \$m	Full year 2022 \$m
New business profit	1,489	2,184
Sensitivity to alternative economic assumptions:		
Interest rates and consequential effects – 2% increase	(54)	220
Interest rates and consequential effects – 1% increase	(25)	134
Interest rates and consequential effects – 0.5% decrease	12	(97)
Equity/property yields – 1% rise	87	160
Risk discount rates – 2% increase	(449)	(551)
Risk discount rates – 1% increase	(254)	(309)

Embedded value of long-term business

	30 Jun 2023 \$m	31 Dec 2022 \$m
Embedded value	40,179	38,857
Sensitivity to alternative economic assumptions:		
Interest rates and consequential effects – 2% increase	(4,202)	(3,988)
Interest rates and consequential effects – 1% increase	(2,242)	(2,067)
Interest rates and consequential effects – 0.5% decrease	1,181	1,058
Equity/property yields – 1% rise	2,002	1,884
Equity/property market values – 20% fall	(1,969)	(1,840)
Risk discount rates – 2% increase	(7,852)	(7,371)
Risk discount rates – 1% increase	(4,462)	(4,155)
Group minimum capital requirements	116	117

New business sensitivities vary with changes in business mix and APE sales volumes. In particular the directional movements in the new business profit interest rate sensitivities from 31 December 2022 to 30 June 2023 reflect the movements in the business unit mix driven by the increase in the APE sales growth in Hong Kong, which is more sensitive to changes in the risk discount rates than the level of future investment returns.

For a 1 per cent increase in assumed interest rates, the \$(2,242) million negative effect comprises a \$(4,462) million negative impact of increasing the risk discount rate by 1 per cent, partially offset by a \$2,220 million benefit from assuming 1 per cent higher investment returns. Similarly, for a 2 per cent increase in assumed interest rates the \$(4,202) million negative effect comprises a \$(7,852) million negative impact of increasing the risk discount rates by 2 per cent, partially offset by a \$3,650 million benefit from higher assumed investment returns. Finally, for a 0.5 per cent decrease in assumed interest rates, there would be a \$1,181 million positive effect reflecting the benefit of a 0.5 per cent reduction in risk discount rates being partially offset by lower assumed investment returns. These offsetting impacts are sensitive to economics and the net impact can therefore change from period to period depending on the current level of interest rates.

In order to illustrate the impact of varying specific economic assumptions, all other assumptions are held constant in the sensitivities above and, therefore, the actual changes in embedded value were these economic effects to materialise may differ from the sensitivities shown. For example, market risk allowances within the risk discount rate may change if interest rates change

and these are not allowed for in the above. If market risk allowances were changed as expected when interest rates are increased by 1 per cent, the expected reduction in EEV would be \$(2,009) million (compared with the \$(2,242) million impact shown above). Similarly, if interest rates actually decreased by 0.5 per cent, it would lead to a \$1,039 million increase (compared with the \$1,181 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). It mainly includes interest costs on core structural borrowings and corporate expenditure for head office functions that are not recharged/allocated to the insurance and asset management business.

Certain costs incurred within the head office functions 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 insurance operations allow for amounts expected to be recharged by the head office functions on a recurring basis. 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.

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 includes the projected future profit or loss from asset management and service companies that support the Group's covered insurance businesses). Following the implementation of IFRS 17, a similar adjustment is made to eliminate the intra-group profit within the results of central operations.

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.

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

	2023 \$m	2022 \$m	
	30 Jun	30 Jun	31 Dec
IFRS basis shareholders' equity	1,733	1,758	1,495
Mark-to-market value adjustment on central borrowings ^{note 5}	389	193	427
EEV basis shareholders' equity	2,122	1,951	1,922
Debt instruments treated as capital resources	3,268	3,849	3,629
Free surplus of other (central) operations	5,390	5,800	5,551

5 Net core structural borrowings of shareholder-financed businesses

	2023 \$m			2022 \$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	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)}	(3,314)	-	(3,314)	(2,143)	-	(2,143)	(3,057)	-	(3,057)
Central borrowings:									
Subordinated debt	2,317	(265)	2,052	2,289	(173)	2,116	2,286	(306)	1,980
Senior debt	1,632	(124)	1,508	1,977	(20)	1,957	1,975	(121)	1,854
Total central borrowings	3,949	(389)	3,560	4,266	(193)	4,073	4,261	(427)	3,834
Net core structural borrowings of shareholder-financed businesses	635	(389)	246	2,123	(193)	1,930	1,204	(427)	777

Notes

- (i) Holding company includes centrally managed Group holding companies. The definition of holding company cash and short-term investments was updated at 31 December 2022 ie holding company includes central holding and service companies. Further information is provided in note I(iv) of the Additional financial information.
- (ii) As recorded in note C5.1 of the IFRS financial results.
- (iii) The movement in the value of core structural borrowings includes issuances and redemptions in the period and foreign exchange effects for pounds sterling denominated debts. The movement in the mark-to-market value adjustment can be analysed as follows:

	2023 \$m		2022 \$m	
	Half year	Full year	Half year	Full year
Mark-to-market value adjustment at beginning of period	(427)	438	438	438
Credit included in the income statement	38	(865)	(631)	(865)
Mark-to-market value adjustment at end of period	(389)	(427)	(193)	(427)

6 Methodology and accounting presentation

6.1 Methodology

(a) Covered business

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

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

(b) Valuation of in-force and new business

The EEV basis results are prepared incorporating best estimate assumptions about all relevant factors including levels of future investment returns, persistency, mortality, morbidity and expenses, as described in note 7(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 7(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 17. 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 the Chinese Mainland, Hong Kong, Malaysia, Singapore and Taiwan, have both guaranteed and non-guaranteed elements. These products provide returns to policyholders through bonuses that are smoothed. There are two types of bonuses: regular and final. Regular bonuses are declared once a year and, once credited, are guaranteed in accordance with the terms of the particular products. Final bonuses are guaranteed only until the next bonus declaration.

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

Time value

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

Where appropriate (ie where financial options and guarantees are explicitly valued under the EEV methodology), a full stochastic valuation has been undertaken to determine the time value of financial options and guarantees. The economic assumptions used for the stochastic calculations are consistent with those used for the deterministic calculations. Assumptions specific to the stochastic calculations reflect local market conditions and are based on a combination of actual market data, historic market data and an assessment of long-term economic conditions. Common principles have been adopted across the Group for the stochastic asset models, such as separate modelling of individual asset classes with an allowance for correlations between various asset classes. Details of the key characteristics of each model are given in note 7(b).

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

(e) Level of required capital and net worth

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

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

- For CPL operations, the level of required capital follows the approach for embedded value reporting issued by the China Association of Actuaries (CAA) reflecting the C-ROSS regime. The CAA has started a project to assess whether any changes are required to the embedded value guidance in the Chinese Mainland given changes in regulatory rules, regulations and the external market environment since the standard was first issued. To date, no outcomes have been proposed by the CAA and Prudential has made no change to its EEV basis for CPL in half year 2023. At such time that there is a new basis, Prudential will consider the effect of proposals.
- For Hong Kong participating business, the HK RBC regime recognises the value of future shareholder transfers on an economic basis as available capital with an associated required capital. Within EEV, the shareholder value of participating business continues to be recognised as VIF with no recognition within free surplus and no associated required capital.
- For Singapore life operations, the level of net worth and required capital is based on the Tier 1 Capital position under the risk-based capital framework (RBC2), which removes certain negative reserves permitted to be recognised in the full RBC2 regulatory position applicable to the Group's GWS capital position, in order to better reflect free surplus and its generation.

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

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

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

(g) Internal asset management

In line with the EEV Principles, the in-force and new business results from long-term business include the projected future profit or loss from asset management and service companies that support the Group's covered insurance businesses. The results of the Group's asset management operations include the current period profit from the management of both internal and external funds. EEV basis shareholders' other income and expenditure is adjusted to deduct the expected profit anticipated to arise in the current period in the opening VIF from internal asset management and other services. This deduction is on a basis consistent with that used for projecting the results for covered insurance business. Accordingly, Group operating profit includes the actual profit earned in respect of the management of these assets.

(h) Allowance for risk and risk discount rates

Overview

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

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

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

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

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

Market risk allowance

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

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

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

Allowance for non-diversifiable non-market risks

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

A base level allowance of 50 basis points is applied to cover the non-diversifiable non-market risks associated with the Group's covered business. For the Group's businesses in less mature markets (such as the Philippines, Thailand and Africa) additional allowances of 250 basis points, or higher where there is more uncertainty, 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 2023, the total allowance for non-diversifiable non-market risk is equivalent to a \$(3.0) billion, or (7) per cent, reduction to the embedded value of long-term business operations.

(i) Foreign currency translation

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

(j) Taxation

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

6.2 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 6.1(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.

7 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 and, where relevant, allowing for market volatility.

As described in note 6.1(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(i), are not included in the risk discount rates.

	Risk discount rate %					
	New business			In-force business		
	2023	2022		2023	2022	
	30 Jun	30 Jun	31 Dec	30 Jun	30 Jun	31 Dec
CPL	7.2	7.4	7.4	7.2	7.4	7.4
Hong Kong ^{note (i)}	4.6	3.9	4.8	5.4	4.5	5.5
Indonesia	9.1	10.7	10.0	9.8	11.3	10.6
Malaysia	5.7	6.1	5.8	6.3	6.7	6.5
Philippines	13.6	14.6	14.5	13.6	14.6	14.5
Singapore	4.9	4.9	5.0	5.1	5.1	5.2
Taiwan	3.6	3.4	3.5	4.1	4.1	4.0
Thailand	9.9	10.4	10.0	9.9	10.4	10.0
Vietnam	4.2	5.3	6.9	4.4	5.1	6.7
Total weighted average ^{note (ii)}	5.9	6.5	6.9	6.0	5.9	6.4

	10-year government bond yield %			Equity return (geometric) %		
	2023	2022		2023	2022	
	30 Jun	30 Jun	31 Dec	30 Jun	30 Jun	31 Dec
CPL	2.7	2.9	2.9	6.7	6.9	6.9
Hong Kong ^{note (i)}	3.8	3.0	3.9	7.3	6.5	7.4
Indonesia	6.6	7.9	7.3	10.8	12.1	11.5
Malaysia	3.9	4.3	4.1	7.4	7.8	7.6
Philippines	6.4	7.4	7.3	10.6	11.6	11.5
Singapore	3.0	3.0	3.1	6.5	6.5	6.6
Taiwan	1.3	1.3	1.3	5.3	5.3	5.3
Thailand	2.6	3.1	2.7	6.9	7.4	7.0
Vietnam	2.7	3.4	5.0	7.0	7.6	9.3
Total weighted average (new business) ^{note (ii)}	3.9	3.8	4.2	7.2	7.2	7.5
Total weighted average (in-force business) ^{note (ii)}	3.8	3.6	4.0	7.3	7.2	7.6

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 6.1(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;
- The interest rates are projected using a stochastic interest rate model calibrated to the current market yields;
- The 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 17 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. Where experience is expected to be adverse over the short term, a provision may be established.

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

Demographic assumptions

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

Expense assumptions

Expense levels, including those of the service companies that support the Group's long-term business, are based on internal expense analysis and are appropriately allocated to acquisition of new business and renewal of in-force business. For mature business, in general, it is Prudential's policy not to take credit for future cost reduction programmes until the actions to achieve the savings have been delivered. An allowance is made for short-term required expenses that are not representative of the longer-term expense loadings of the relevant businesses. At 30 June 2023, the allowance held for these costs across the Group was \$(120) million. If future expense overruns are expected to be short-lived, they are capitalised and subsequently amortised against future overruns.

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

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

Tax rates

The assumed long-term effective tax rates for operations reflect the expected incidence of taxable profit or loss in the projected future cash flows as explained in note 6.1(j). The local standard corporate tax rates applicable are as follows:

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

8 Insurance new business

	Single premiums			Regular premiums			Annual premium equivalents (APE)			Present value of new business premiums (PVNBP)		
	2023 \$m		2022 \$m	2023 \$m		2022 \$m	2023 \$m		2022 \$m	2023 \$m		2022 \$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)}	397	858	1,254	355	421	759	394	507	884	1,481	2,119	3,521
Hong Kong	116	656	842	1,015	162	438	1,027	227	522	5,364	1,774	3,295
Indonesia	132	120	250	137	98	222	150	110	247	629	442	1,040
Malaysia	46	45	99	180	168	350	185	172	359	915	845	1,879
Singapore	535	1,715	2,628	332	219	507	386	390	770	2,441	3,184	6,091
Growth markets:												
Africa	4	4	9	84	75	148	85	76	149	170	151	308
Cambodia	1	–	–	9	7	18	9	7	18	38	30	69
India ^{note (ii)}	130	135	273	115	106	196	128	120	223	619	609	1,148
Laos	–	–	–	–	–	–	–	–	–	1	–	1
Myanmar	–	–	–	3	1	3	3	1	3	8	4	6
Philippines	38	36	61	90	84	176	94	87	182	331	297	615
Taiwan	54	86	157	335	271	486	339	281	503	1,254	994	1,835
Thailand	71	72	150	111	92	220	118	99	235	470	394	932
Vietnam	8	66	99	108	130	288	109	136	298	709	885	1,666
Total	1,532	3,793	5,822	2,874	1,834	3,811	3,027	2,213	4,393	14,430	11,728	22,406

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 revenue recorded in the Group IFRS income statement.

9 Post balance sheet events

First interim ordinary dividend

The 2023 first interim ordinary dividend approved by the Board of Directors after 30 June 2023 is as described in note B4 of the IFRS financial results.

Independent review report to Prudential plc

Conclusion

We have been engaged by Prudential plc ('the Company' or 'the Group') to review the European Embedded Value ('EEV') Financial Results in the half-yearly financial report for the six months ended 30 June 2023 which comprise the EEV Results Highlights, Basis of Preparation, the Movement in Group EEV Shareholders' Equity, the Movement in Group Free Surplus and the related explanatory notes 1 to 9. The EEV Financial Results should be read in conjunction with the condensed set of IFRS financial statements in the half-yearly financial report. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the EEV Financial Results.

Based on our review, nothing has come to our attention that causes us to believe that the EEV Financial Results in the half-yearly financial report for the six months ended 30 June 2023 are 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 Financial Results.

Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements 2410 (UK) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (ISRE) issued by the Financial Reporting Council. 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. 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.

Emphasis of Matter - basis of preparation for the EEV Financial Results

We draw attention to the Basis of Preparation of the EEV Financial Results. The EEV Financial Results are prepared to provide additional information to the users of the half-yearly financial report. As a result, the EEV Financial Results may not be suitable for another purpose.

Our opinion is not modified in respect of this matter.

Conclusions Relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis of Conclusion section of this report, nothing has come to our attention to suggest 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 are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE 2410 (UK), however future events or conditions may cause the Group to cease to continue as a going concern.

Responsibilities of the directors

The directors are responsible for preparing the EEV Financial Results in accordance with the EEV Principles using the methodology and assumptions set out in the notes to the EEV Financial Results.

In preparing the EEV Financial Results, 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.

Auditor's Responsibilities for the review of the financial information

In reviewing the EEV Financial Results, we are responsible for expressing to the Group a conclusion on the EEV Financial Results in the half-yearly financial report. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

This report is made solely to the Company in accordance with the terms of our engagement letter to provide a review conclusion to the Company on the EEV Financial Results. Our review of the EEV Financial Results 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 work, for this report, or for the conclusions we have formed.

Ernst & Young LLP
London
29 August 2023