European Embedded Value (EEV) basis results

Description of EEV basis reporting

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

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 to the IFRS consolidated financial statements.

EEV results highlights

	2024	2023				
		AER		CER		
	$m	$m	% change	$m	% change	% change excluding economics note (v)
New business profit note (i)	**3,078**	3,125	(2)%	3,093	–	11 %
Annual premium equivalent (APE) note (i)	**6,202**	5,876	6 %	5,787	7 %	7 %
New business margin (APE) (%)	**50 %**	53 %	-3pp	53 %	-3pp	+2pp
Present value of new business premiums (PVNBP)	**30,612**	28,737	7 %	28,436	8 %	
Gross operating free surplus generated from in-force insurance and asset management business notes (i)(ii)	**2,642**	2,740	(4)%	2,706	(2)%	
Net operating free surplus generated from insurance and asset management business notes (i)(ii)	**1,942**	2,007	(3)%	1,984	(2)%	
EEV operating profit notes (i)(iii)	**4,828**	4,546	6 %	4,522	7 %	
EEV operating profit, net of non-controlling interests	**4,671**	4,526	3 %	4,506	4 %	
Operating return on Group EEV (%) note (iv)	**12 %**	12 %				
Closing Group EEV equity, net of non-controlling interests	**44,218**	45,250	(2)%	44,707	(1)%	
Closing Group EEV equity, net of non-controlling interests per share (in cents)	**1,664¢**	1,643¢	1 %	1,623¢	3 %	

Notes

(i) Results are presented before deducting the amounts attributable to non-controlling interests. 2024 new business and operating results include the contribution from businesses classified as held for sale at 31 December 2024. Comparative 2023 results are as previously published. This presentation is applied consistently throughout this document, unless stated otherwise.

(ii) Stated before restructuring and IFRS 17 implementation costs, centrally incurred costs and eliminations.

(iii) EEV operating profit is stated after restructuring and IFRS 17 implementation costs, centrally incurred costs and eliminations.

(iv) Operating return on Group EEV is calculated as EEV operating profit for the year, after non-controlling interests, as a percentage of opening Group EEV excluding distribution rights and other intangibles. By definition Group EEV excludes goodwill. This differs from the definition previously applied, which has been updated to better compare with peers. Comparatives have been restated accordingly. See note II(ix) in the Additional information section.

(v) New business profit excluding economic impacts (and the movements therein) represents the amount of new business profit for 2024 calculated using economics (including interest rates) as at 31 December 2023 and average exchange rates for 2024. The percentage change excluding economics compares this amount to the new business profit in 2023, prepared using consistent average exchange rates for 2024, as described in the Strategic and operating review.

Basis of preparation

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. 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 insurance business, after sufficient allowance has been made for the aggregate risks in the business. The shareholders' interest in the Group's insurance business is the sum of the shareholders' total net worth and the value of in-force business. The value of future new business is excluded from the embedded value.

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 CSM. These future profits have been derived on a risk neutral basis (including an illiquidity premium), namely without allowing for the real-world investment returns that will be earned on the assets held. In contrast, EEV reflects all future profits, with no equivalent liability to the CSM, 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. Both IFRS and EEV are updated annually for current interest rates and other economic assumptions. 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 5 and note 6. 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 on a risk-adjusted real-world basis that allows for the uncertainties in these cash flows. 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 at that valuation date. Risk-free rates, and hence investment return assumptions, are set by reference to current observable market data and hence fluctuate across valuation dates. 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), rather than implicit allowances within the risk discount rate. 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 contain more limited financial options or guarantees. At 31 December 2024, the TVOG is $(353) million (31 December 2023: $(290) million). The magnitude of the TVOG at 31 December 2024 would be approximately equivalent to a circa 7 basis points (31 December 2023: 6 basis points) increase in the weighted average risk discount rate.

Allowance for risk in the risk discount rates

Risk discount rates are set equal to the risk-free rate at the valuation date plus product-specific allowances for market and non-market risks. Risks that are explicitly captured elsewhere, such as via the TVOG, are not included in the risk discount rates.

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

- For health and protection products, which represent 48 per cent of the value of in-force business (31 December 2023: 51 per cent) and 41 per cent of new business profit (31 December 2023: 40 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 31 per cent of the value of in-force (31 December 2023: 27 per cent) and 15 per cent of new business profit (31 December 2023: 14 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, 79 per cent of the value of in-force (31 December 2023: 78 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 13 per cent of the value of in-force (31 December 2023: 13 per cent) and 5 per cent of the value of new business profit (31 December 2023: 4 per cent), which limits the impact on the overall risk discount rate.
- The remaining parts of the business, 8 per cent of the value of in-force business (31 December 2023: 9 per cent) and 39 per cent of the value of new business (31 December 2023: 42 per cent), relate to other products not covered by the above.
- The allowance for non-market risk comprises a base group-wide allowance of 50 basis points plus additional allowances for emerging market risk where appropriate. At 31 December 2024, the total allowance for non-market risk is equivalent to a$(3.0) billion (31 December 2023: $(3.0) billion) reduction, or around (7) per cent (31 December 2023: (7) per cent) of the embedded value.

Movement in Group EEV equity

	Note	2024 $m Insurance and asset management operations	2024 $m Other (central) operations	2024 $m Group total	2023 $m Group total
New business profit	1	**3,078**	**–**	**3,078**	3,125
Profit from in-force business	2	**2,095**	**–**	**2,095**	1,779
Insurance business		**5,173**	**–**	**5,173**	4,904
Asset management business		**275**	**–**	**275**	254
Operating profit from insurance and asset management businesses		**5,448**	**–**	**5,448**	5,158
Other expenditure		**–**	**(423)**	**(423)**	(420)
Operating profit (loss) before restructuring and IFRS 17 implementation costs		**5,448**	**(423)**	**5,025**	4,738
Restructuring and IFRS 17 implementation costs		**(49)**	**(148)**	**(197)**	(192)
Operating profit (loss) for the year		**5,399**	**(571)**	**4,828**	4,546
Short-term fluctuations in investment returns	2	**(32)**	**229**	**197**	(70)
Effect of changes in economic assumptions	2	**(1,971)**	**–**	**(1,971)**	(589)
Loss attaching to corporate transactions		**(150)**	**–**	**(150)**	(22)
Mark-to-market value movements on core structural borrowings	6	**–**	**(43)**	**(43)**	(153)
Non-operating results		**(2,153)**	**186**	**(1,967)**	(834)
Profit (loss) for the year		**3,246**	**(385)**	**2,861**	3,712
Non-controlling interests' share of profit		**(104)**	**–**	**(104)**	(20)
Profit (loss) for the year attributable to equity holders of the Company		**3,142**	**(385)**	**2,757**	3,692
Foreign exchange movements		**(610)**	**(29)**	**(639)**	(134)
Intra-group dividends and investment in operations note (i)		**(1,366)**	**1,366**	**–**	–
Dividends, net of scrip dividends		**–**	**(552)**	**(552)**	(533)
Adjustment to non-controlling interest for Malaysia conventional life business note (ii)		**(1,732)**	**29**	**(1,703)**	–
New share capital subscribed		**–**	**–**	**–**	4
Share repurchases/buybacks note (iii)			**(878)**	**(878)**	–
Other equity movements note (iv)		**169**	**(186)**	**(17)**	37
Net (decrease) increase in Group EEV equity		**(397)**	**(635)**	**(1,032)**	3,066
Group EEV equity at beginning of year		**42,958**	**2,292**	**45,250**	42,184
Group EEV equity at end of year		**42,561**	**1,657**	**44,218**	45,250
Contribution to Group EEV equity:					
At end of year					
Insurance business	2	**41,134**	**–**	**41,134**	41,528
Asset management and other	5	**691**	**1,657**	**2,348**	2,955
Group EEV		**41,825**	**1,657**	**43,482**	44,483
Goodwill attributable to equity holders		**736**	**–**	**736**	767
Group EEV equity at end of year		**42,561**	**1,657**	**44,218**	45,250
At beginning of year					
Insurance business	2	**41,528**	**–**	**41,528**	38,857
Asset management and other	5	**663**	**2,292**	**2,955**	2,565
Group EEV		**42,191**	**2,292**	**44,483**	41,422
Goodwill attributable to equity holders		**767**	**–**	**767**	762
Group EEV equity at beginning of year		**42,958**	**2,292**	**45,250**	42,184

Movement in Group EEV equity continued

Group EEV equity per share (in cents) note (v)	2024 Insurance and asset management operations	2024 Other (central) operations	2024 Group total	2023 Group total
At end of year:				
Based on Group EEV (ie excluding goodwill attributable to equity holders)	**1,574¢**	**62¢**	**1,636¢**	1,615¢
Based on Group EEV equity at end of year	**1,602¢**	**62¢**	**1,664¢**	1,643¢
At beginning of year:				
Based on Group EEV (ie excluding goodwill attributable to equity holders)	**1,532¢**	**83¢**	**1,615¢**	1,507¢
Based on Group EEV equity at beginning of year	**1,560¢**	**83¢**	**1,643¢**	1,534¢

EEV equity per share, before non-controlling interests (in cents) note (vi)	2024 Group total	2023 Group total
At end of year		
Group EEV equity	**44,218**	45,250
Non-controlling interests	**2,069**	203
Group EEV equity before non-controlling interests	**46,287**	45,453
Based on Group EEV equity, before non-controlling interests	**1,741¢**	1,650¢

EEV basis basic earnings per share note (vi)	2024 Before non-controlling interests $m	2024 After non-controlling interests $m	2024 Basic earnings per share cents	2023 Basic earnings per share cents
Based on operating profit	**4,828**	**4,671**	**172.0¢**	165.1¢
Based on profit for the year	**2,861**	**2,757**	**101.5¢**	134.7¢

Notes

(i) Intra-group dividends represent dividends that have been paid in the year. Investment in operations reflects movements in share capital.

(ii) The adjustment to non-controlling interest arises from our Malaysia life entity, Prudential Assurance Malaysia Berhad (PAMB). See note 1 for further details.

(iii) The Company completed share repurchases to offset the dilution from both the vesting of awards under employee and agent share schemes in January and June, and the scrip dividend programme in November 2024. The Company also commenced its share buyback programme in June 2024. Further details are provided in note C8 of the IFRS consolidated financial statements.

(iv) 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 EEV equity.

(v) Based on the number of issued shares at 31 December 2024 of 2,658 million shares (31 December 2023: 2,754 million shares).

(vi) Based on weighted average number of issued shares of 2,715 million shares in 2024, (2023: 2,741 million shares), which excludes those held in employee share trusts.

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. Adjustments are also made to enable free surplus to be a better measure of shareholders' resources available for distribution. For shareholder-backed businesses, the level of EEV required capital has been based on the Group Prescribed Capital Requirements (GPCR) used in our GWS (Group Wide Supervision) reporting as set out in note 7.1(e).

For asset management and other non-insurance business operations (including the Group's central operations), free surplus is taken to be IFRS 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.

		2024 $m			2023 $m
	Note	Insurance and asset management operations	Other (central) operations	Group total	Group total note (i)
Expected transfer from in-force business		**2,375**	**–**	**2,375**	2,635
Expected return on existing free surplus		**291**	**–**	**291**	234
Changes in operating assumptions and experience variances		**(299)**	**–**	**(299)**	(383)
Operating free surplus generated from in-force insurance business		**2,367**	**–**	**2,367**	2,486
Investment in new business note (i)	2	**(700)**	**–**	**(700)**	(733)
Insurance business	2	**1,667**	**–**	**1,667**	1,753
Asset management business		**275**	**–**	**275**	254
Operating free surplus generated from insurance and asset management businesses		**1,942**	**–**	**1,942**	2,007
Other expenditure		**–**	**(423)**	**(423)**	(420)
Restructuring and IFRS 17 implementation costs		**(49)**	**(148)**	**(197)**	(192)
Operating free surplus generated		**1,893**	**(571)**	**1,322**	1,395
Non-operating free surplus generated note (ii)		**136**	**229**	**365**	(223)
Free surplus generated for the year		**2,029**	**(342)**	**1,687**	1,172
Net cash flows paid to parent company note (iii)		**(1,383)**	**1,383**	**–**	–
Dividends, net of scrip dividends		**–**	**(552)**	**(552)**	(533)
Foreign exchange movements		**(112)**	**(29)**	**(141)**	(24)
New share capital subscribed		**–**	**–**	**–**	4
Share repurchases/buybacks		**–**	**(878)**	**(878)**	–
Other equity movements		**184**	**(203)**	**(19)**	37
Net increase (decrease) in free surplus before non-controlling interests and before debt redemption		**718**	**(621)**	**97**	656
Debt redemption		**–**	**–**	**–**	(421)
Net increase (decrease) in free surplus before non-controlling interests		**718**	**(621)**	**97**	235
Adjustment to non-controlling interest for Malaysia conventional life business		**(190)**	**29**	**(161)**	–
Non-controlling interests' share of free surplus generated		**(33)**	**–**	**(33)**	(9)
Balance at beginning of year		**6,807**	**5,648**	**12,455**	12,229
Balance at end of year		**7,302**	**5,056**	**12,358**	12,455
Representing:					
Free surplus excluding distribution rights and other intangibles		**6,226**	**2,378**	**8,604**	8,518
Distribution rights and other intangibles		**1,076**	**2,678**	**3,754**	3,937
Balance at end of year		**7,302**	**5,056**	**12,358**	12,455

Movement in Group free surplus continued

Contribution to Group free surplus:	Note	2024 $m Insurance and asset management operations	2024 $m Other (central) operations	2024 $m Group total	2023 $m Group total
At end of year:					
Insurance business	2	**6,611**	**–**	**6,611**	6,144
Asset management and other businesses		**691**	**5,056**	**5,747**	6,311
Total at end of year		**7,302**	**5,056**	**12,358**	12,455
At beginning of year:					
Insurance business	2	**6,144**	**–**	**6,144**	6,035
Asset management and other businesses		**663**	**5,648**	**6,311**	6,194
Total at beginning of year		**6,807**	**5,648**	**12,455**	12,229

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 (central) 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 that did not meet the qualifying conditions as set out in the Insurance (Group Capital) Rules and 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 Group equity primarily relates to intra-group loans, foreign exchange movements and other non-cash items.

Notes on the EEV basis results

1 Analysis of new business profit and EEV for insurance business operations

	2024					
	New business profit (NBP)	Annual premium equivalent (APE)	Present value of new business premiums (PVNBP)	New business margin (APE)	New business margin (PVNBP)	Closing Group EEV
	$m	$m	$m	%	%	$m
	note (i)					
Mainland China (Prudential's share)	**111**	**464**	**1,584**	**24%**	**7%**	**2,596**
Hong Kong	**1,438**	**2,063**	**11,502**	**70%**	**13%**	**17,882**
Indonesia	**145**	**262**	**1,136**	**55%**	**13%**	**1,487**
Malaysia	**160**	**406**	**1,918**	**39%**	**8%**	**4,112**
Singapore	**557**	**870**	**5,846**	**64%**	**10%**	**8,823**
Growth markets and other	**667**	**2,137**	**8,626**	**31%**	**8%**	**8,177**
Non-controlling interests' share of embedded value note (ii)						**(1,943)**
Total insurance business	**3,078**	**6,202**	**30,612**	**50%**	**10%**	**41,134**

	2023 (AER)					
	New business profit (NBP)	Annual premium equivalent (APE)	Present value of new business premiums (PVNBP)	New business margin (APE)	New business margin (PVNBP)	Closing Group EEV
	$m	$m	$m	%	%	$m
	note (i)					
Mainland China (Prudential's share)	222	534	2,020	42%	11%	3,038
Hong Kong	1,411	1,966	10,444	72%	14%	17,702
Indonesia	142	277	1,136	51%	13%	1,509
Malaysia	167	384	1,977	43%	8%	3,709
Singapore	484	787	5,354	61%	9%	7,896
Growth markets and other	699	1,928	7,806	36%	9%	7,734
Non-controlling interests' share of embedded value						(60)
Total insurance business	3,125	5,876	28,737	53%	11%	41,528

	2023 (CER)					
	New business profit (NBP)	Annual premium equivalent (APE)	Present value of new business premiums (PVNBP)	New business margin (APE)	New business margin (PVNBP)	Closing Group EEV
	$m	$m	$m	%	%	$m
Mainland China (Prudential's share)	219	525	1,989	42%	11%	2,951
Hong Kong	1,416	1,972	10,479	72%	14%	17,794
Indonesia	137	266	1,092	52%	13%	1,444
Malaysia	166	383	1,971	43%	8%	3,811
Singapore	486	791	5,381	61%	9%	7,635
Growth markets and other	669	1,850	7,524	36%	9%	7,435
Non-controlling interests' share of embedded value						(51)
Total insurance business	3,093	5,787	28,436	53%	11%	41,019

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

Notes

(i) The movement in new business profit from insurance business operations is analysed as follows:

	$m
2023 new business profit	3,125
Foreign exchange movement	**(32)**
Sales volume	**222**
Effect of changes in interest rates and other economic assumptions	**(362)**
Business mix, product mix and other items	**125**
2024 new business profit	**3,078**

(ii) The Group holds 51 per cent of the ordinary shares of the holding company of Prudential Assurance Malaysia Berhad, or PAMB, which is its conventional life insurance business in Malaysia. Detik Ria Sdn Bhd ('Detik Ria') holds the other 49 per cent. There was an agreement between the Group and Detik Ria that allowed the Group to acquire from Detik Ria its 49 per cent shareholding. In 2008, Detik Ria exercised the put option for which it received payments in accordance with the agreement. Following the Federal Court of Malaysia decision on 30 July 2024, the Group has not changed the ongoing consolidation of the business of PAMB, which remains a subsidiary controlled by the Group, but the Group has, in the 2024 financial statements, reflected a 49 per cent non-controlling interest instead of the previously consolidated 100 per cent economic interest. The Federal Court of Malaysia also directed Detik Ria to return the consideration payments it has previously received from the Group of circa $29 million, which includes interest. The non-controlling interest at 31 December 2024 was $1,935 million comprising $1,732 million at 1 January 2024 and $203 million in respect of the movement in 2024.

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

	2024 $m					2023 $m
	Free surplus	Required capital	Net worth	Value of in-force business	Embedded value note (a)	Embedded value note (a)
Balance at beginning of year	**6,144**	**5,984**	**12,128**	**29,400**	**41,528**	38,857
New business contribution	**(700)**	**716**	**16**	**3,062**	**3,078**	3,125
Existing business – transfer to net worth	**2,375**	**(235)**	**2,140**	**(2,140)**	**–**	–
Expected return on existing business note (b)	**291**	**283**	**574**	**1,791**	**2,365**	2,122
Changes in operating assumptions, experience variances and other items note (c)	**(299)**	**(47)**	**(346)**	**76**	**(270)**	(343)
Operating profit before restructuring and IFRS 17 implementation costs	**1,667**	**717**	**2,384**	**2,789**	**5,173**	4,904
Restructuring and IFRS 17 implementation costs	**(21)**	**–**	**(21)**	**–**	**(21)**	(55)
Operating profit	**1,646**	**717**	**2,363**	**2,789**	**5,152**	4,849
Non-operating result note (d)	**140**	**(38)**	**102**	**(2,212)**	**(2,110)**	(651)
Profit for the year	**1,786**	**679**	**2,465**	**577**	**3,042**	4,198
Non-controlling interests share of profit	**(26)**	**5**	**(21)**	**(92)**	**(113)**	(13)
Profit for the year attributable to equity holders of the Company	**1,760**	**684**	**2,444**	**485**	**2,929**	4,185
Foreign exchange movements	**(92)**	**(36)**	**(128)**	**(452)**	**(580)**	(136)
Intra-group dividends and investment in operations	**(1,177)**	**(40)**	**(1,217)**	**40**	**(1,177)**	(1,502)
Adjustment to non-controlling interest for Malaysia conventional life business	**(190)**	**(182)**	**(372)**	**(1,360)**	**(1,732)**	–
Other equity movements note (e)	**166**	**–**	**166**	**–**	**166**	124
Balance at end of year	**6,611**	**6,410**	**13,021**	**28,113**	**41,134**	41,528

(a) Total embedded value

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

	31 Dec 2024 $m	31 Dec 2023 $m
Free surplus	**6,611**	6,144
Required capital	**6,410**	5,984
Net worth	**13,021**	12,128
Value of in-force business before deduction of cost of capital and time value of options and guarantees	**29,150**	30,436
Cost of capital	**(684)**	(746)
Time value of options and guarantees note	**(353)**	(290)
Net value of in-force business	**28,113**	29,400
Embedded value	**41,134**	41,528

Note

The time value of options and guarantees (TVOG) arises from the variability of economic outcomes in the future and is, where appropriate, calculated as the difference between an average outcome across a range of economic scenarios, calibrated around a central scenario, and the outcome from the central economic scenario, as described in note 7.1(d). At 31 December 2024, the TVOG is $(353) million with the substantial majority arising in Hong Kong.

(b) Expected return on existing business

The expected return on existing business comprises the expected unwind of discounting effects on the opening value of in-force business and required capital (after allowing for updates to economic and operating assumptions) and the expected return on existing free surplus, as described in note 7.2(c). The movement in this amount compared to the prior year from insurance business operations is analysed as follows:

	$m
2023 expected return on existing business	2,122
Foreign exchange movement	**(23)**
Effect of changes in interest rates and other economic assumptions	**42**
Growth in opening value of in-force business and other items	**224**
2024 expected return on existing business	**2,365**

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

Overall, the total impact of operating assumption changes, experience variances and other items in 2024 was $(270) million (2023: $(343) million), comprising changes in operating assumptions of $82 million in 2024 (2023: $85 million) and experience variances and other items of $(352) million (2023: $(428) million).

(d) Non-operating results

The EEV non-operating result from insurance business operations can be summarised as follows:

	2024 $m	2023 $m
Short-term fluctuations in investment returns note (i)	**(32)**	(62)
Effect of change in economic assumptions note (ii)	**(1,971)**	(589)
Loss attaching to corporate transactions note (iii)	**(107)**	–
Non-operating results	**(2,110)**	(651)

Notes

(i) Short-term fluctuations in investment returns of $(32) million mainly reflect higher than expected equity returns in some regions broadly offset by bond losses from increases in interest rates in most Asia markets during the year.

(ii) The level of effect of changes in economic assumptions will vary depending on the movements in interest rates in the period and the consequent impacts on fund earned rates and risk discount rates will vary between businesses and products. In 2024, the negative impact of $(1,971) million is primarily driven by falling interest rates in China and the consequent fall in fund earned rates and rising interest rates in Hong Kong where the effect of the increase in risk discount rates dominates.

(iii) Loss attaching to corporate transactions in 2024 mainly related to the held for sale businesses (further details are provided in note C1.2 of the IFRS consolidated financial statements).

(e) Other equity movements

Other equity 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 EEV equity.

3 Sensitivity of results for insurance business operations

(a) Sensitivity analysis – economic assumptions

The tables below show the sensitivity of the new business profit and the embedded value 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, which 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 insurance business operations and include the combined effect on the value of in-force business and net assets (including derivatives within the insurance operations) held at the valuation dates indicated. The results only allow for limited management actions, such as repricing and 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 at the end of that period, for example, new business profit and expected return on existing business are calculated with reference to end of period economic assumptions.

New business profit from insurance business	2024 $m	2023 $m
Base value*	**3,078**	3,125
Impact from alternative economic assumptions:		
Interest rates and consequential effects – 2% increase	**(64)**	(175)
Interest rates and consequential effects – 1% increase	**(34)**	(88)
Interest rates and consequential effects – 0.5% decrease	**2**	35
Equity/property yields – 1% rise	**117**	139
Risk discount rates – 2% increase	**(851)**	(917)
Risk discount rates – 1% increase	**(478)**	(529)

New business profit sensitivities vary with changes in business mix and APE sales volumes.

Embedded value of insurance business	31 Dec 2024 $m	31 Dec 2023 $m
Base value*	**41,134**	41,528
Impact from alternative economic assumptions:		
Interest rates and consequential effects – 2% increase	**(4,022)**	(4,154)
Interest rates and consequential effects – 1% increase	**(2,079)**	(2,172)
Interest rates and consequential effects – 0.5% decrease	**1,070**	1,133
Equity/property yields – 1% rise	**1,965**	1,856
Equity/property market values – 20% fall	**(2,120)**	(1,863)
Risk discount rates – 2% increase	**(7,991)**	(8,015)
Risk discount rates – 1% increase	**(4,500)**	(4,516)
Group minimum capital requirements	**110**	117

* Embedded value includes Africa operations. In the context of the Group, Africa's results are not materially impacted by the above sensitivities.

Interest rates and consequential effects include offsetting impacts that are sensitive to economics and the net impact can therefore change from period to period depending on the current level of interest rates.

- For a 1 per cent increase in assumed interest rates, the $(2,079) million negative effect comprises a $(4,500) million negative impact of increasing the risk discount rate by 1 per cent, partially offset by a $2,421 million benefit from assuming 1 per cent higher investment returns.
- Similarly, for a 2 per cent increase in assumed interest rates the $(4,022) million negative effect comprises a $(7,991) million negative impact of increasing the risk discount rates by 2 per cent, partially offset by a $3,969 million benefit from higher assumed investment returns.
- Finally, for a 0.5 per cent decrease in assumed interest rates, there would be a $1,070 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.

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.

(b) Sensitivity analysis – non-economic assumptions

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

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

New business profit from insurance business

	2024 $m	2023 $m
New business profit	**3,078**	3,125
Maintenance expenses – 10% decrease	**58**	61
Lapse rates – 10% decrease	**196**	212
Mortality and morbidity – 5% decrease	**155**	114

Embedded value of insurance business

	31 Dec 2024 $m	31 Dec 2023 $m
Embedded value	**41,134**	41,528
Maintenance expenses – 10% decrease	**405**	440
Lapse rates – 10% decrease	**1,748**	1,806
Mortality and morbidity – 5% decrease	**1,569**	1,514

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

The table below shows how the value of in-force business (VIF) and the associated required capital for insurance business operations are projected as emerging into free surplus over future years. Cash flows are projected on a deterministic basis and are discounted at the appropriate risk discount rate. The modelled cash flows use the same methodology underpinning the Group's EEV reporting and so are subject to the same assumptions and sensitivities. It includes 100 per cent of the Group's Malaysia conventional life business. See note I(v) of the Additional financial information for further detail.

	Total expected	Expected period of conversion of future post-tax distributable earnings and required capital flows to free surplus at 31 Dec					
	Emergence	1–5 years	6–10 years	11–15 years	16–20 years	21–40 years	40+ years
2024 ($m)	**36,270**	**10,895**	**6,910**	**5,002**	**3,740**	**7,464**	**2,259**
(%)	**100 %**	**30 %**	**19 %**	**14 %**	**10 %**	**21 %**	**6 %**
2023 ($m)	35,223	9,897	6,744	4,884	3,749	7,590	2,359
(%)	100 %	28 %	19 %	14 %	11 %	21 %	7 %

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

	31 Dec 2024 $m	31 Dec 2023 $m
Required capital note 2	**6,410**	5,984
Value of in-force business (VIF) note 2	**28,113**	29,400
Other items*	**1,747**	(161)
Insurance business operations	**36,270**	35,223

* Other items' includes the impact of the TVOG and amounts incorporated into VIF where there is no definitive time frame for when the payments will be made or receipts received. These items are excluded from the expected free surplus generation profile above. In 2024, it also includes the non-controlling interest in the Group's Malaysia conventional life business.

5 EEV basis results for other (central) operations

EEV results for other income and expenditure represent the post-tax IFRS results for other (central) operations before restructuring and IFRS 17 implementation costs. The results mainly include interest costs on core structural borrowings and corporate expenditure for head office functions in London and Hong Kong that are not recharged or allocated to the insurance and asset management business.

Certain costs incurred within the head office functions are recharged to the insurance business operations and recorded within the results for those operations. The assumed future expenses within the value of in-force business for insurance business 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 business 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 insurance business operations excludes the projected future profits generated by any non-insurance entities within the Group in providing those services (ie the EEV for insurance business operations includes 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, consistent with their presentation within the Group's IFRS basis reporting. An adjustment is accordingly made to Group EEV operating profit, within the results for other (central) operations, to deduct the expected profit anticipated to arise in the current period in the opening value of in-force business from internal asset management services, such that Group EEV operating profit includes the actual profit earned in respect of the management of these assets. Following the implementation of IFRS 17, a similar adjustment is made in IFRS to eliminate the intra-group profit within the results of central operations.

The Group EEV 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 any 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 that 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.

	2024 $m	2023 $m
IFRS shareholders' equity	**1,426**	2,018
Mark-to-market value adjustment on central borrowings note 6	**231**	274
Group EEV equity	**1,657**	2,292
Debt instruments treated as capital resources	**3,399**	3,356
Free surplus at end of year	**5,056**	5,648

6 Net core structural borrowings of shareholder-financed businesses

	31 Dec 2024 $m			31 Dec 2023 $m		
	IFRS basis	Mark-to -market value adjustment	EEV basis at market value	IFRS basis	Mark-to -market value adjustment	EEV basis at market value
	note (ii)	note (iii)		note (ii)	note (iii)	
Holding company cash and short-term investments note (i)	**(2,916)**	**–**	**(2,916)**	(3,516)	–	(3,516)
Central borrowings:						
Subordinated debt	**2,289**	**(141)**	**2,148**	2,297	(205)	2,092
Senior debt	**1,636**	**(90)**	**1,546**	1,636	(69)	1,567
Total central borrowings	**3,925**	**(231)**	**3,694**	3,933	(274)	3,659
Net core structural borrowings of shareholder-financed businesses	**1,009**	**(231)**	**778**	417	(274)	143

Notes
(i) Holding company includes centrally managed Group holding companies and service companies.
(ii) As recorded in note C5.1 of the IFRS consolidated financial statements.
(iii) The movement in the value of core structural borrowings includes redemptions in the year and foreign exchange effects for pound sterling denominated debts. The movement in the mark-to-market value adjustment can be analysed as follows:

	2024 $m	2023 $m
Mark-to-market value adjustment at beginning of year	**(274)**	(427)
Charge included in the income statement	**43**	153
Mark-to-market value adjustment at end of year	**(231)**	(274)

7 Methodology and accounting presentation

7.1 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 insurance business (including the Group's investments in joint venture and associate insurance business operations), for which the value of new and in-force contracts is attributable to shareholders.

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 business operations (including interest costs on core structural borrowings and corporate expenditure for head office functions that is not recharged or allocated to the insurance business 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 8.3. These assumptions are used to project future cash flows. The present value of the projected future cash flows is then calculated using a discount rate, as shown in note 8.1, 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 profitability is a key metric for the Group's management of the development of the business. New business profit represents profit determined by applying operating and economic assumptions as at the end of the period. 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 insurance 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 Mainland China, Hong Kong, Malaysia, Singapore and Taiwan, have both guaranteed and non-guaranteed elements. These products provide returns to policyholders through bonuses that are smoothed. There are two types of bonuses: regular and final. Regular bonuses are declared once a year and, once credited, are guaranteed in accordance with the terms of the particular products. Final bonuses are guaranteed only until the next bonus declaration.

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

Time value

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

Where appropriate (ie where financial options and guarantees are explicitly valued under the EEV methodology), a full stochastic valuation has been undertaken to determine the time value of financial options and guarantees. The economic assumptions used for the stochastic calculations are consistent with those used for the deterministic calculations. Assumptions specific to the stochastic calculations reflect local market conditions and are based on a combination of actual market data, historical market data and an assessment of long-term economic conditions. Common principles have been adopted across the Group for the stochastic asset models, such as separate modelling of individual asset classes with an allowance for correlations between various asset classes. Details of the key characteristics of each model are given in note 8.2.

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 Mainland China, 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 Mainland China in 2024. At such time that there is a new basis, Prudential will consider the effect of proposals.
- For Hong Kong, the HK RBC framework requires liabilities to be valued on a best estimate basis and capital requirements to be risk based. Adjustments are made to EEV free surplus to better reflect how the business is managed. For example, EEV free surplus excludes regulatory surplus that arises where HK RBC technical provisions are lower than policyholder asset shares. In addition, for 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.

(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 insurance business EEV includes the projected future profit from asset management and service companies that support the Group's covered insurance businesses. The results of the Group's asset management business operations include the current period profit from the management of both internal and external funds. Group EEV equity basis 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
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 and do not revert to longer-term rates over time.
- 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. The allowance for non-market risk comprises a base Group-wide allowance of 50 basis points plus an additional allowance for emerging market risk where appropriate. The level and application of these allowances are reviewed and updated based on assessment of the Group's exposure and experience in the markets.

At 31 December 2024, the total allowance for non-diversifiable non-market risk is equivalent to a $(3) billion, or (7) per cent, reduction to the embedded value of insurance 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 consolidated financial statements.

(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.

Several jurisdictions either have implemented, or are in the process of implementing, the OECD's Pillar Two tax rules, which include a global minimum tax and a domestic minimum tax with a rate of 15 per cent. These tax rules, when effective, are not expected to have a material impact on the Group EEV in the periods where the actual investment returns are in line with or below the expected long-term rates of return.

7.2 Accounting presentation

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

- New business profit, as defined in note 7.1(b) above;
- Expected return on existing business, as described in note (c) below;
- The impact of routine changes of estimates relating to operating assumptions, as described in note (d) below; and
- Operating experience variances, as described in note (e) below.

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

Non-operating results comprise:

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

Total profit or loss in the period attributable to shareholders and basic earnings per share include investment returns included in operating profit and non-operating results, ie reflecting actual investment returns in the period instead of expected returns. The Group believes that operating profit, as adjusted for these non-operating 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 insurance business, investment returns are recognised in operating results at the expected long-term rates of return. These expected returns are calculated by reference to the asset mix of the portfolio.

(c) Expected return on existing business

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

(d) Effect of changes in operating assumptions

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

(e) Operating experience variances

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

(f) Effect of changes in economic assumptions

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

8 Assumptions

8.1 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 projected future cash flows at each valuation date. The risk-free rates of return are largely based on local government bond yields and are assumed to remain constant and do not revert to longer-term rates over time. The risk-free rates of return are shown below for each of the Group's insurance business 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 7.1(h), risk discount rates are set equal to the risk-free rate at the valuation date plus allowances for market risk and non-diversifiable non-market risks appropriate to the features and risks of the underlying products and markets.

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

	Risk discount rate %				10-year government bond yield %		Equity return (geometric) %	
	New business		In-force business					
	31 Dec 2024	31 Dec 2023	**31 Dec 2024**	31 Dec 2023	**31 Dec 2024**	31 Dec 2023	**31 Dec 2024**	31 Dec 2023
Mainland China	**6.2**	7.1	**6.2**	7.1	**1.7**	2.6	**5.7**	6.6
Hong Kong note (i)	**5.5**	4.7	**6.2**	5.5	**4.7**	3.9	**8.2**	7.4
Indonesia	**9.5**	9.0	**10.5**	9.9	**7.2**	6.7	**11.4**	11.0
Malaysia	**5.7**	5.6	**6.2**	6.2	**3.9**	3.8	**7.4**	7.3
Philippines	**12.3**	12.3	**12.3**	12.3	**6.2**	6.1	**10.5**	10.3
Singapore	**4.9**	4.6	**4.9**	4.8	**2.9**	2.7	**6.4**	6.2
Taiwan note (i)	**6.7**	6.0	**6.7**	6.0	**4.7**	3.9	**8.2**	7.4
Thailand	**9.6**	10.0	**9.6**	10.0	**2.3**	2.8	**6.6**	7.0
Vietnam	**4.0**	3.7	**4.3**	4.1	**2.8**	2.3	**7.0**	6.6
Total weighted average (new business) notes (ii)(iii)	**6.2**	5.8	**n/a**	n/a	**4.4**	3.9	**7.7**	7.3
Total weighted average (in-force business) notes (ii)(iii)	**n/a**	n/a	**6.1**	5.9	**4.1**	3.7	**7.5**	7.1

Notes

(i) For Hong Kong and Taiwan (as of 31 December 2024, with comparatives updated accordingly), 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 allowances for market risk (including as a result of changes in asset mix,) and, if applicable, non-diversifiable non-market risk, and changes in product mix.

(iii) Expected long-term inflation assumptions as at 31 December 2024 range from 1.5 per cent to 4.3 per cent (31 December 2023: 1.5 per cent to 5.5 per cent).

8.2 Stochastic assumptions

Details are given below of the key characteristics of the models used to determine the time value of financial options and guarantees as referred to in note 7.1(d).

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

8.3 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.

(a) 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.

(b) Expense assumptions

Expense levels, including those of the service companies that support the Group's insurance business, are based on internal expense analysis and are appropriately allocated to acquisition of new business and renewal of in-force business. For mature business, it is Prudential's policy not to take credit for future cost reduction programmes until the actions to achieve the savings have been delivered. Expense overruns are reported where these are expected to be short-lived, including businesses that are growing rapidly or are sub-scale.

Expenses comprise costs borne directly and costs recharged or allocated from the Group head office functions in London and Hong Kong that are attributable to the insurance (covered) business. The assumed future expenses for the insurance business allow for amounts expected to be recharged or allocated by the head office functions.

Corporate expenditure, which is included in other income and expenditure, comprises expenditure of the Group head office functions in London and Hong Kong that is not recharged or allocated to the insurance or asset management business operations, primarily for corporate-related activities that are charged as incurred, together with restructuring and IFRS 17 implementation costs incurred across the Group.

(c) Tax rates

The assumed long-term effective tax rates for operations reflect the expected incidence of taxable profit or loss in the projected future cash flows as explained in note 7.1(j). The local standard corporate tax rates applicable are as follows:

	%
Mainland China	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

9 Insurance new business

	Single premiums		Regular premiums		Annual premium equivalent (APE)		Present value of new business premiums (PVNBP)	
	2024 $m	2023 $m	**2024 $m**	2023 $m	**2024 $m**	2023 $m	**2024 $m**	2023 $m
Mainland China note (i)	**162**	487	**447**	485	**464**	534	**1,584**	2,020
Hong Kong	**398**	235	**2,024**	1,942	**2,063**	1,966	**11,502**	10,444
Indonesia	**266**	230	**235**	254	**262**	277	**1,136**	1,136
Malaysia	**95**	93	**397**	375	**406**	384	**1,918**	1,977
Singapore	**1,404**	989	**730**	688	**870**	787	**5,846**	5,354
Growth markets and other note (ii)	**628**	629	**2,074**	1,866	**2,137**	1,928	**8,626**	7,806
Total note (iii)	**2,953**	2,663	**5,907**	5,610	**6,202**	5,876	**30,612**	28,737

Notes

(i) New business in Mainland China is included at Prudential's 50 per cent interest in the life joint venture.

(ii) Within Growth markets and other, 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 are not intended to be, reflective of revenue recorded in the Group IFRS consolidated income statements.

10 Post balance sheet events

Dividends

The second interim dividend for the year ended 31 December 2024, which was approved by the Board of Directors after 31 December 2024, is described in note B4 of the IFRS consolidated financial statements.