



Jeremy Anderson
Chair

Committee's purpose

The Committee's purpose is to assist the Board in providing leadership, direction and oversight of the Group's overall risk appetite, tolerance and strategy. It oversees and advises the Board on the current and potential risks to the Group, reviewing and approving the Group's risk management framework, and monitoring its effectiveness and adherence to the various risk policies.

More information on the Risk Committee can be found in its Terms of Reference, which are available at www.prudentialplc.com/investors/governance-and-policies/board-and-committees-governance

Membership and 2021 meeting attendance

| Committee Members | 2021 Meetings |
|-----------------------------|---------------|
| Jeremy Anderson | 9/9 |
| David Law | 9/9 |
| Ming Lu ¹ | 5/5 |
| Kai Nargolwala ² | 4/4 |
| Alice Schroeder | 9/9 |
| Tom Watjen | 9/9 |
| Jeanette Wong ¹ | 5/5 |

Regular attendees

- > Chair of the Board
- > Group Chief Executive
- > Group Chief Risk and Compliance Officer
- > Group Chief Financial Officer and Chief Operating Officer
- > Company Secretary
- > Group Chief Internal Auditor
- > Chief risk officers of Jackson³ and PCA
- > Members of the Group Risk Leadership Team are invited to attend each meeting as appropriate.

Notes

- 1 Ming Lu and Jeanette Wong joined the Risk Committee on 12 May 2021.
- 2 Kai Nargolwala stepped down from the Board following the conclusion of the AGM held on 13 May 2021.
- 3 The Chief Risk officer of Jackson ceased attendance following the demerger.

Risk Committee report

'The Committee has continued to provide the Board with leadership, direction and oversight of the risk appetite and exposures of the Group.'

Dear shareholders

As Chair of the Risk Committee I am pleased to report on the Committee's activities and focus during 2021. The Committee continued to consider the challenges presented by the pandemic, it also provided key input into the historic changes to the Group that were completed during the year.

The Hong Kong IA's GWS Framework became effective for the Group on 14 May 2021, following designation by the Hong Kong IA, subject to agreed transitional arrangements. The Committee considered updates, including the results of an independent readiness assessment, on the implementation of the Framework prior to Prudential's designation. Following implementation, we received regular updates on the Group's ongoing compliance.

The risks associated with the Jackson demerger and equity raise, which completed in September and October 2021 respectively, were a key focus of the Committee, which considered risk opinions and approved the associated risk disclosures included in transaction documentation.

Some of the other key risks and matters considered by the Committee are summarised in this letter, with further information included in the table below.

Committee operation and governance

As part of its duties detailed above, the Committee reviews the Group Risk Framework (GRF) to ensure that it remains effective in identifying and managing the risks faced by the Group and recommends changes for approval by the Board. We considered and approved the Risk, Compliance and Security (RCS) function's planned activities for 2021 and received regular reports from the Group Chief Risk and Compliance Officer (CRCO), who is advised by the Group Executive Risk Committee (GERC). We also received regular reports from the GwIA function and updates from other areas of the business as needed. In 2021, to ensure sufficient time was provided for key matters requiring detailed discussions, additional Committee time was planned following the scheduled meetings in February and November 2021.

The Committee works closely with the Audit Committee to ensure both committees are updated and aligned on matters of common interest and I report to the Board on the main matters discussed. Direct lines of communication, reporting and oversight of the risk committees of the Group's Material Subsidiaries are in place. Their terms of reference are aligned to the Committee's own, and include the requirement for relevant risk escalations directly to the Committee. Regular direct communication and close cooperation with each of the local chairs remains a key component of our governance framework, and at each meeting I update the Committee on important points raised at local level. In order to foster a close working relationship with the local audit and risk committees and deepen understanding of Group-wide risk topics, David Law and I chaired a session attended by the non-executive directors of the Group's Material Subsidiaries.

The effectiveness of the Committee was reviewed as part of the annual Board evaluation, which confirmed that the Committee continued to operate effectively during the year, with actions agreed where necessary to improve its effectiveness. I provided feedback on the performance of the Group CRCO to the Group Chief Executive as part of the annual evaluation of the Board and its members.

Risk appetite and principal risks

a. Risk governance, capital and liquidity

The Committee performed its regular review of the Group's risk policies and proposed changes to the Group risk appetite statements and associated limits, including how these would apply following the demerger of Jackson. We regularly reviewed the strength of our capital and liquidity positions, including the results of stress and scenario analyses. We also considered regular updates on the approach for adoption of the proposed Risk-Based Capital (RBC) regime at our Hong Kong business.

b. The Group's principal risks

The Committee considered the principal risks to the Group's financial viability and non-financial resilience and sustainability, in particular those driven by a constantly-changing operating environment and the risks to, and resulting from, the Group's digital and sustainability agenda. The Committee reviewed the Group's annual Own Risk and Solvency Assessment (ORSA) report in May 2021 and in-depth reviews were performed on existing and emerging high-risk areas. The Committee also received reports from the risk committee chairs of the Material Subsidiaries in 2021, with the chief risk officers of Asia, Africa and (prior to demerger) Jackson regularly attending Committee meetings.

c. Covid-19 risks

The Committee continued to monitor developments in risks from the pandemic and the Group's ongoing responses to it. It has become clear that Covid-19 and its impact will continue for longer than many would have predicted, and some societal changes accelerated by the pandemic may be significantly long-term or permanent. This includes the expectations on the nature of working arrangements and customer expectations on insurance and health products and their accessibility. A key focus of the Committee in 2022 will be on how Prudential continues to conduct itself in a way to sustainably deliver easily accessible and socially inclusive products. Similarly, time will be prioritised to discuss the fair treatment of its policyholders, the well-being of its staff, and the broader long-term macro-economic impacts of Covid-19, such as increased inflation. A fuller explanation of the principal risks facing the Group and the way in which these are managed is set out in the Risk Review on pages 44 to 65.

Sustainability, including climate change risk

The Group's annual update of its principal risks and ORSA report included assessments of the key sustainability risk areas associated with ESG considerations, including climate change related risks. In 2021, the Committee considered key changes to the GRF to reflect that sustainability risks, such as environmental risk, can impact and increase the Group's existing risks. Updates to the non-financial risk appetite framework to frame risk appetite statements around stakeholder considerations and lenses, more aligned to ESG considerations, were approved by the Committee, and policies were updated to explicitly reference climate change and other ESG considerations. A Group Responsible Investment Policy was approved to support the Group's external commitments, including those around asset book de-carbonisation. We also approved the Group's revised Third-Party and Outsourcing Policy, which specifically references ESG within its key principles.

Digital and technology risks

The Committee received regular updates on information security, data privacy and technology risks and incidents, as well as developments in the external threat landscape such as the rise in prominence of ransomware. It approved a new Group Data Policy establishing the principles and requirements for effective and scalable data management, in light of the increase in volume and variety of data expected as part of the Group's digital aspirations. A specific session of the Committee's October 2021 meeting included updates on the Group's technology risk governance model, regulatory developments, the results of external penetration testing and a deep dive review into planned features of Prudential's Pulse platform.

The Committee was kept apprised on the key risks associated with Pulse. It also received updates on the progress of roll-out plans in new markets and the implementation of key platform features, as well as developments in risk governance over the Pulse business, such as the setting up of an Audit and Risk Committee at the Pulse subsidiary during the year.

Model risk

In 2021, given their importance to the Group's business, the Committee focused on the risks associated with its critical models. Following the revision to Jackson's hedge modelling, announced on 28 January 2021, which impacted Jackson's statutory capital, with the Committee's support I led a review of the oversight and governance arrangements which operate for the Group's critical models. The work focused on reviews of relevant Group policies, existing controls in relation to models and model changes, risk validation activity, and the visibility of model risk management information. It took into account the output from an internal audit performed during the year.

The Committee has been satisfied that appropriate controls are in place and operating for critical models across the Group's portfolio of businesses. A number of enhancements are being made at a Group and business level to ensure consistency of approach and additional oversight by both specialist technical teams and the board-level governance risk and audit committees across the Group, with implementation in 2022.

The Committee approved updates to the Group's Model and User Developed Applications Policy, which explicitly includes the AI ethical principles the Group's models must comply with. Updates included an increase in oversight of models in development and the broadening of the considerations when assessing model criticality to include a wider group of stakeholders and reputational risk impacts.

The Committee received regular updates on the development of the Group internal economic capital assessment (GIECA) model in 2021. This included approving the overall GIECA methodology, prior to submission to the Hong Kong IA, and the risk calibrations for new long-term economic assumptions. It also considered the governance framework and validation activity for the GIECA model.

The Committee was also regularly updated on developments on the model planned to be used by the Hong Kong business under the Hong Kong IA's RBC regime.

I would like to take this opportunity to thank my fellow Committee members and Prudential's RCS function, both at Group level and at the level of local businesses, in supporting the crucial work of the Committee during such a transformative year.



Jeremy Anderson
Chair of the Risk Committee

Principal activities and significant issues considered by the Risk Committee during 2021

| Matters considered | How the Committee addressed the matter |
|------------------------|--|
| Risk Management | <p data-bbox="411 376 1206 396">Group principal risks, including Chief Risk and Compliance Officer (CRCO) reporting</p> <p data-bbox="411 405 1493 539">The Committee evaluated the Group's principal risks, considering recommendations for promoting additional risks and changes in the scope of existing risks. The Committee also received regular reporting on the Group's exposure to, and management of, its principal risks, emerging risk themes and external developments within the Group CRCO's regular report to the Committee. Further information on how the Group identifies emerging and principal risks can be found in the Risk Review.</p> <p data-bbox="411 562 1437 674">The Group CRCO's reports also provided the Committee with regulatory updates, including the implications of the developing global capital standards, systemic risk regulation, engagement with the Hong Kong IA on the implementation of the GWS Framework and the Group's ongoing compliance with the Framework following its designation by the supervisor.</p> <p data-bbox="411 696 619 716">Covid-19 related risks</p> <p data-bbox="411 725 1501 837">The impact of the Covid-19 pandemic has been broad with continuing implications for the Group's solvency and liquidity position. The Committee received regular updates on the nature and extent of the impacts across its principal risks, including the ongoing resilience, market and economic, product, information security, distribution and customer conduct risks and the Group's ongoing responses to them.</p> <p data-bbox="411 860 1445 904">A key focus of the Committee in 2021 has been monitoring the potential impact of the pandemic to the level of mortality claims and policy lapses or surrenders (both to the business and to customers) in certain markets.</p> <p data-bbox="411 927 520 947">Deep dives</p> <p data-bbox="411 956 1481 1001">As part of its risk oversight responsibilities, the Committee considers the results of 'deep dive' risk reviews performed over the year.</p> <p data-bbox="411 1023 1509 1135">In 2021, these focused on the risks related to the Group's medical reimbursement product lifecycle and product risks across its major insurance businesses; the product implications arising from IFRS17; network security through penetration testing; and proposed functionality for the Pulse platform. The Committee also considered the results of a review of the risk assessment processes for anti-money laundering and anti-bribery and corruption across its markets.</p> <p data-bbox="411 1158 1481 1202">The Committee received updates on actions and developments relating to deep dives completed in 2020, including those related to interest rate risk management.</p> <p data-bbox="411 1225 660 1245">Transformation oversight</p> <p data-bbox="411 1254 1453 1299">The Committee monitored the progress of the Group's key strategic projects during the year which, in addition to those outlined in the letter above, included activities focused on IFRS 17 implementation and IBOR cessation.</p> <p data-bbox="411 1321 783 1344">Information security and data privacy</p> <p data-bbox="411 1352 1501 1554">During 2021, updates were provided to the Committee on key external developments relevant to information security and data privacy, including changes in regulations and the external threat landscape. This included a focus on the global increase in frequency of ransomware attacks and the risk management and mitigation arrangements in place at the Group. The Committee also received regular progress updates on the operationalisation of the Group-wide governance model and strategy for the management of information security and data privacy risks, as well as Group-wide information security and privacy metrics providing a view of security posture across the businesses. In May 2021, we approved a new Group Data Policy, detailed in the letter above.</p> <p data-bbox="411 1576 1469 1621">A session of the October 2021 Committee meeting was dedicated to information security and data privacy, where the Committee considered the matters detailed in the letter above.</p> |

Principal activities and significant issues considered by the Risk Committee during 2021

| Matters considered | How the Committee addressed the matter |
|--|---|
| Risk Management <i>continued</i> | <p>Sustainability, including climate change, risk A key component of the RCS Plan for 2021, approved by the Committee in February 2021, was the embedding of climate risk considerations into the GRF. This, and the other ESG-related matters considered by the Committee, have been detailed in the letter above.</p> <p>We received regular updates on key climate-related regulatory and legislative developments, including those in respect of disclosure requirements, progress against the Group's responsible investment commitments and its ESG ratings by external assessors and agencies.</p> <p>Remuneration The Committee has a formal role in the provision of advice to the Remuneration Committee on risk management considerations in respect of executive remuneration. It considered risk management assessments of proposed executive remuneration structures and outcomes during the year, making related recommendations to the Remuneration Committee for its consideration.</p> <p>Stress and scenario testing The Committee is responsible for reviewing the outcome and results of stress and scenario testing, which is a key risk identification, measurement and management tool for the Group.</p> <p>Stress and scenario testing is a key component of the Group's ORSA process and the Risk Assessment of the Business Plan, as described below, as well as its Recovery Planning and Reverse Stress Testing (RST).</p> <p>The Group's Recovery Plan, considered by the Committee in October 2021, included an assessment of the viability and operational resilience of the Group under severe financial and non-financial shock scenarios. The Plan concluded that, as at end of 2021, the Group is expected to remain in a resilient financial and operational condition when under severe stress, with only a very extreme scenario breaching the Group's recovery activation measures, and that established governance frameworks and procedures are in place for senior management to respond to actual and potential threats.</p> <p>Risk Assessment of the Business Plan As part of its role in overseeing and advising the Board on future risk exposures and strategic risks, the Committee reviewed the Risk Assessment of the Business Plan, which highlighted key financial and non-financial risks, in particular those driven by the uncertain recovery in markets, the impacts of regional Covid-19 resurgences and reinstatements of restrictions and geopolitical risks. The analysis reviewed included sensitivity assessments of the impact of various plausible scenarios.</p> <p>Model risk management At a number of meetings during the year, the Committee reviewed the oversight and governance arrangements which operate for the Group's critical models. The review focused on a number of activities undertaken by management and internal audit to look at relevant Group policies, existing controls in relation to models and model changes, risk validation activity, and the visibility of model risk management information, taking into account the output from an internal audit performed during the year. The review made a number of recommendations which, in summary:</p> <ul style="list-style-type: none"> > confirm the central role of management and the various executive technical committees in overseeing model assumptions, development and assurance, and in determining matters for escalation, but adjust some of their terms of reference to expand their coverage; > clarify the oversight expectations and responsibilities of the Audit and Risk Committees at Group and BU level; and > develop guidance, examples and training to help committees approach their roles in an appropriately consistent manner. <p>The Committee will monitor progress against the agreed actions over the course of 2022.</p> |

Principal activities and significant issues considered by the Risk Committee during 2021

| Matters considered | How the Committee addressed the matter |
|--|---|
| Regulatory and Compliance Matters | <p>GWS Framework The matters considered by the Committee in advance of the Group's designation under, and ongoing compliance with, the GWS Framework post-designation have been detailed in the letter above.</p> <p>Compliance and regulatory change The Committee received regular reporting on key regulatory compliance risks and mitigation activity across the Group's businesses throughout the year, covering regulatory changes, reviews and interventions, including those relating to US-China sanctions.</p> <p>We also received regular updates on conduct risk and progress under the Group's Conduct Risk Programme, including those related to the further implementation, assurance and the engagement model of the Group Conduct Risk Framework.</p> <p>Group-wide Internal Audit The Committee received updates from GwIA throughout the year relating to matters which fall within the scope of its responsibilities. In October 2021, we considered the GwIA function's report on its audit into model governance.</p> |
| Risk and Compliance Framework | <p>Annual review of risk policies, risk framework compliance and Committee effectiveness The GRF and risk policies were subject to their annual review, with amendments made to ensure the policies remained appropriate post the GWS Framework becoming effective for the Group and the Jackson demerger, as well as changes to reflect the Group's purpose, ESG strategy and culture framework. The Board approved the changes recommended by the Committee.</p> <p>The Committee reviewed the results of the annual Group Governance Manual year-end compliance attestation performed by the business units under the GRF and associated policies.</p> <p>In February 2022, the Committee considered the findings of the annual evaluation of Committee effectiveness, agreeing actions where necessary to improve Committee effectiveness. It also considered the effectiveness of, and approved updates to, the RCS Function Mandate which formally sets out the purpose and responsibilities of the RCS function and its effectiveness in overseeing the key risks to the Group.</p> <p>Group Risk Appetite and Limits The Committee is responsible for recommending changes in the Group's overall risk appetite and tolerance to the Board for approval.</p> <p>In May 2021, the Committee recommended for approval by the Board proposed enhancements to the Group Risk Appetite framework to ensure its continued appropriateness post the Jackson demerger and to meet relevant requirements under the new GWS Framework. We approved new Limits and Triggers on asset duration and duration mismatches in July 2021 for road-testing. In November 2021, we approved an increase in the Group's capital counter-cyclical buffer reflective of the assessed mid-to-late economic cycle.</p> <p>Updates to the non-financial risk appetite framework and statements were approved in November 2021 to frame risk appetite statements around stakeholder considerations and lenses, more aligned to ESG considerations.</p> |

Principal activities and significant issues considered by the Risk Committee during 2021

| Matters considered | How the Committee addressed the matter |
|---|--|
| <p>External and regulatory reporting</p> | <p>ORSA The ORSA is a key ongoing process for identifying, assessing, controlling, monitoring and reporting the risks to which the Group is exposed and assessing capital adequacy over the business planning horizon.</p> <p>In May 2021, the Committee considered the Group's ORSA report, based on the Business Plan, prior to its approval by the Board.</p> <p>Systemic Risk Management The Financial Stability Board (FSB) has endorsed a new Holistic Framework for systemic risk management and suspended Global Systemically Important Insurer (G-SII) designations until the completion of a review in 2022.</p> <p>Many of the policy requirements that resulted from the Group's prior designation in 2016 as a G-SII have been adopted into the Insurance Core Principles (ICPs) and ComFrame – the common framework for the supervision of Internationally Active Insurance Groups (IAIGs) – and included under the Hong Kong IA's GWS Framework. Prudential was included in the first register of IAIGs released by the IAIS on 1 July 2020 and was designated an IAIG by the Hong Kong IA following an assessment against the established criteria in ComFrame. The Committee therefore considered, and recommended for approval by the Board, the Systemic Risk Management Plan, Recovery Plan and Liquidity Risk Management Plan.</p> <p>GIECA development The Committee received regular updates on the development of the Group's GIECA model and remained actively involved in its progress. Following updates at the February and May 2021 meetings, which included a summary of the key methodology decisions, the Committee approved risk calibrations for new long-term economic assumption risks at its July 2021 meeting.</p> <p>In October 2021, the Committee approved the overall updated GIECA methodology prior to submission to the Hong Kong IA, and considered the governance framework for the GIECA model and a validation report and opinion on model developments.</p> <p>In November 2021, we approved key assumptions for the proposed model to be used for FY 2021 results.</p> <p>Hong Kong RBC In February 2021, the Committee considered an update on Hong Kong RBC adoption which included considerations on technical specifications. In November 2021, it considered the plans for independent assurance opinions on RBC results and considered updates on the internal and external validation of the proposed RBC model.</p> <p>Insurance Capital Standards (ICS) The Committee considered the Group's FY2020 ICS results in November 2021. This included an update on key areas of focus for the Group's engagement on the development of the ICS during the five-year monitoring period.</p> |
