



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, reviews and approves the Group's risk management framework, and monitors 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

Membership and 2022 meeting attendance

Committee members	2022 meetings ^{1,5}
Jeremy Anderson, Chair	7/7
David Law	7/7
Ming Lu ²	7/7
George Sartorel ³	5/5
Alice Schroeder ⁴	3/3
Tom Watjen	7/7
Jeanette Wong	6/7

Regular attendees

- > Chair of the Board
- > Chief Executive Officer
- > Group Chief Risk and Compliance Officer
- > Group Chief Financial Officer
- > Company Secretary
- > Group Chief Internal Auditor

Members of the Group Risk Leadership Team are invited to attend each meeting as appropriate.

Notes

- 1 The Committee held four joint meetings with the Risk Committee, in addition to the seven Risk Committee meetings. All members attended the joint meetings.
- 2 Ming Lu stepped down from the Risk Committee on 1 May 2022.
- 3 George Sartorel joined the Risk Committee on 1 May 2022.
- 4 Alice Schroeder stepped down from the Board following the conclusion of the AGM held on 26 May 2022.
- 5 Arijit Basu attended one of the meetings as an observer, as part of his induction programme.

Risk Committee report

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The Committee has continued to provide the Board with strategic leadership, direction and oversight of the multi-faceted and often inter-connected risks for the Group in a year of uncertainty and volatility.

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Jeremy Anderson
Chair of the Risk Committee

Dear shareholders

As Chair of the Risk Committee, I am pleased to report on the Committee's activities and focus during 2022. The Committee considered the challenges presented by the confluence of macroeconomic volatility, geopolitical tensions and Covid-19, with specific focus on the management of non-financial risks that may impact operational resilience and lead to reputational risk, such as those associated with third parties and outsourcing, customer conduct and technology risk. Moreover, the Committee has made people a first-order focus, in recognition of the many demands on resources across the Group.

The key risks and matters considered by the Committee are summarised in this letter, with further information included in the table below. In areas where risks are strategic or have broader impact, the Risk Committee escalates to the Board for a wider discussion.

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 2022 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.

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. Commencing in the second half of 2022, the CRCOs of the Group's Material Subsidiaries have been invited to present to the Committee on a rotational basis, to help deepen the Committee's understanding of risks relevant to the local businesses. Regular direct communication and close cooperation with each of the Material Subsidiary risk committee 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 continue 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 conference 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.

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. We regularly reviewed the strength of our capital and liquidity positions, including the results of stress and scenario analyses.

b. The Group's principal risks

The Committee considered the principal risks to the Group's financial viability, operational resilience and sustainability. These included the long-term macroeconomic impacts of Covid-19, geopolitical tensions, inflationary pressure, rising interest rates and slowing economic growth. Risks associated with the Group's digital transformation and sustainability agenda were also considered. The Committee reviewed the Group's annual Own Risk and Solvency Assessment (ORSA) report in May 2022 and in-depth reviews were performed on existing and emerging high-risk areas. 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 49 to 63.

Sustainability, including climate change risk

In July 2022, oversight responsibilities for environmental and climate-related issues, including the ongoing implementation of the Group's external commitments to the decarbonisation of its operations and investment portfolio and other climate-focused external responsible investment commitments were transferred to the Committee. The Committee's terms of reference were changed to reflect its holistic role in overseeing these areas. Building on changes implemented in 2021, the embedding of ESG considerations into the GRF continued during the year, such as explicitly including consideration of risks in the context of the time horizon of expected benefits/paybacks of decisions within core strategic processes where 'risk-based decision-making' must be incorporated. Time horizons for the purposes of climate disclosures have been defined and included in the GRF.

Digital and technology risks

The Committee received regular updates on the key risks associated with technology across the Group, including notable incidents, regulatory developments, governance and strategy, as well as developments in the global cybersecurity threat landscape such as the rise in prominence of ransomware, and the progress of cyber-attack simulation exercises with senior executives and readiness training across the Group.

Joint sessions of the Risk Committee and Audit Committee were held in May and July 2022 covering updates on the Group Data Policy and data governance process, as well as the cybersecurity and privacy posture across businesses, respectively.

In the backdrop of heightened risks involving IT service areas managed by third parties, a deep dive was performed and the Committee received regular updates on the improvement plans.

Customer conduct risk

Treating customers fairly, honestly and with integrity remains a key focus area of the Group and the Committee. In addition to receiving regular updates, a joint session of the Risk and Audit Committees in September 2022 was dedicated to customer conduct risk, where the Committee considered the implementation and actions relevant to the continuous developments in the Group's conduct risk framework. Going forward, the Committee will work with the Audit Committee and the Responsibility & Sustainability Working Group (RSWG) on matters relating to customer conduct risk.

Model risk

Following the review that I led in 2021 on the oversight and governance arrangements of the Group's critical models, a number of enhancement actions have been taken throughout the year at Group and business unit level. In February 2022, the Committee updated its terms of reference to expand the model risk oversight expectations and responsibilities and similar changes were implemented in the Group's Material Subsidiaries. Relevant model risk training has been presented to the Committee and executive members of these subsidiaries to facilitate effective oversight. The Committee also received updates on model risk developments across the Group, including areas of risk, controls in place and validation activity.

The Committee received regular updates on the Group internal economic capital assessment (GIECA) model results in 2022, prior to submission to the Hong Kong Insurance Authority (HKIA). The updates considered key assumptions, the governance framework and validation activity for the GIECA model. The Committee focused on the use of the GIECA model which provides a consistent risk and return lens for capital allocation and decision making across various business processes including business planning, product pricing, strategic business decision and remuneration management. We also considered the approach and the application of the Risk-Based Capital (RBC) regime for our Hong Kong business and received regulatory approval for early adoption in April 2022.

I would like to take this opportunity to thank my fellow Committee members and Prudential's RCS function, both at Group and business unit level, in supporting the crucial work of the Committee in the midst of a complex macroeconomic, geopolitical and regulatory environment.



Jeremy Anderson
Chair of the Risk Committee

Principal activities and significant issues considered by the Risk Committee during 2022

Risk management**Group principal risks, including Group Chief Risk and Compliance Officer (CRCO) reporting**

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.

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 regulators (including the Supervisory College) and the Group's ongoing compliance with the Group-wide Supervision Framework (GWS Framework).

Covid-19 related risks

While most markets have moved to an endemic approach in managing Covid-19, the developments and risks have been continuously monitored by the Committee including the ongoing resilience, and the level of mortality claims and policy lapses or surrenders in certain markets.

Deep dives

As part of its risk oversight responsibilities, the Committee considered the results of 'deep dive' risk reviews performed over the year.

In 2022, these focused on the risks related to the Group's Artificial Intelligence (AI) ethics and governance framework; agency sales practices and risk management in Indonesia; the Group's data privacy governance framework; IT service management areas managed by third parties; the Group's debt investment portfolio covering exposures to China property development sector and sub-investment grade debt; and the Group's interest rate risk exposures and asset liability management. The Committee also considered the progress made in managing and addressing money laundering, fraud, bribery and corruption risks.

Transformation oversight and people risk

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.

The Committee received regular updates on elevated people risk and mitigating actions. The Group is undergoing significant transformation and we noted the importance of management balancing the need to look after people whilst maintaining focus on desired outcomes. The Committee was updated on several people initiatives, including fostering better flexibility, inclusivity and psychological safety in the workplace to deepen belonging.

Outsourcing management and third-party oversight

The Committee received regular updates on the Group's supplier and third party oversight and Joint Ventures (JVs). In May 2022, the Committee considered third parties, JVs and outsourcing management as part of the ORSA report, and approved the list of the Group's material outsourcing arrangements prior to submission to the HKIA.

Technology risk

During 2022, 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. The Committee 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 material incidents and improvement plans.

Two joint sessions of the Risk Committee and Audit Committee in May and July 2022 were dedicated to cybersecurity and data/privacy, where the Committees considered the matters detailed in the letter above.

Sustainability, including climate change, risk

Updates to the oversight responsibilities of the Committee and the continued embedding of climate risk considerations into the GRF have been detailed in the letter above.

The Committee 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, its ESG ratings by external assessors and agencies, as well as the Group's participation in industry fora, such as the Net Zero Asset Owner Alliance, and consultations, including that of the International Sustainability Standards Board on its proposed standards for general sustainability and climate-related disclosure requirements. In November 2022, a joint update by RCS and the ESG team to the Committee covered development plans for the Group's reporting against TCFD recommendations and the results of an exercise to map out the material climate and climate-commitment-related activities to support the Committee's plan with respect to its updated responsibilities within the broader ESG Strategic Framework and the ongoing implementation of the Group's external climate-focused commitments.

Principal activities and significant issues considered by the Risk Committee during 2022

Risk management *continued*

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. In September 2022, the Committee recommended to the Remuneration Committee to approve the use of GIECA in setting remuneration targets.

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 and measurement tool for the Group.

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).

The Group's Recovery Plan, considered by the Committee in July 2022, included an assessment of the viability and operational resilience of the Group under severe financial and non-financial shock scenarios, and actions available to the Group to restore its financial strength in such circumstances. The Plan concluded that 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.

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. The analysis reviewed included sensitivity assessments of the impact of various plausible scenarios.

Model risk management

The Committee received regular updates on the enhancement of the oversight and governance arrangements which operate for the Group's critical models, see details in the letter above. Recommendations were made in 2021 relating to 1) the central role of management in overseeing models; 2) the oversight expectations and responsibilities for the Audit and Risk Committees at Group and business unit level; and 3) the development of guidance and training to support committees in their roles in an appropriately consistent manner. These recommendations were acted on in 2022 and changes and improvements have been made in all three areas.

Regulatory and compliance matters

GWS Framework

In May 2022, the Committee received confirmation of the completion of all agreed GWS transitional arrangements. The Committee received regular updates on the ongoing assurance processes in compliance with the GWS Framework with its wider responsibilities for compliance oversight.

Compliance and regulatory change

The Committee received regular reporting on key regulatory compliance risks and mitigation activities across the Group's businesses throughout the year, covering regulatory changes, reviews and interventions, including those relating to money laundering, sanctions and geopolitical risks.

In addition to those outlined in the letter above, we also received regular updates on the Group's customer conduct risk metrics.

Group-wide Internal Audit

The Committee received updates from GwIA throughout the year relating to matters which fall within the scope of its responsibilities.

Risk and compliance framework

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 fit for purpose and reflect developments within the Group. The Board approved the changes recommended by the Committee.

The Committee reviewed the results of the annual Group Governance Manual year-end compliance attestation performed by the business units against the GRF and associated policies.

In February 2022, the Committee considered the findings of the annual evaluation of Committee effectiveness, agreeing actions where necessary to improve Committee effectiveness. In November 2022, the Committee reviewed the actions taken in respect of how the Committee focuses its time and considered that the key areas of focus for 2022 had been adequately covered. In March 2023, it also considered the effectiveness of the RCS function in overseeing the key risks to the Group.

Principal activities and significant issues considered by the Risk Committee during 2022

Risk and compliance framework *continued*

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.

In July 2022, the Committee recommended for approval by the Board proposed recalibration of the Group Risk Appetite capital targets to ensure their continued appropriateness. In November 2022, as part of the annual review of Group Risk Limits, we approved a recalibration of Limits and Triggers on duration mismatches to reflect more recent market conditions. We also approved a decrease in the Group's capital counter-cyclical buffer reflective of the assessed cycle position back to a more neutral position compared to the mid-to-late economic cycle assessed in Q4 2021.

The Committee received regular reporting throughout the year on any appetite breach of the Group's non-financial risk appetite.

External and regulatory reporting

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.

In May 2022, the Committee considered the Group's ORSA report, based on the Business Plan, prior to its approval by the Board and submission to the HKIA.

Systemic Risk Management

In July 2022, the Committee considered the Group's Recovery Plan and Liquidity Risk Management Plan and recommended them for approval by the Board.

Group Internal Economic Capital Assessment (GIECA)

The Committee received the regular bi-annual updates on the GIECA results in May and November 2022, prior to submission to the HKIA. The updates also covered the governance framework and validation activity for the GIECA model. In November 2022, we approved the proposed changes to the GIECA risk modelling assumptions for FY 2022 reporting.

The Committee received updates on the use of the GIECA model for business decision making in May and July 2022.

Hong Kong Risk-Based Capital regime (HK RBC)

In February 2022, the Committee considered the planned application for early adoption of the Hong Kong RBC framework by the Group's Hong Kong business which received HKIA approval in April 2022.
