Strategic Pillar:

Stewarding the human impacts of climate change

Net zero
target set for 2050

On track
to meet 25% reduction by 2025

Coal policy set
and 2021 equity divestment target met

On track
to achieve Scope 1 and 2 operational emissions carbon neutral target and 25% reduction per FTE by 2030

Limiting climate change and its associated increases in planetary temperatures is one of the greatest global challenges of our time.

Failing to limit these increases is expected to have significant economic, societal and individual consequences. Prudential remains committed to proactively play our part in enabling the transition to a low-carbon economy. We do this by decarbonising our investment portfolio and own operations, and by working towards sustainable development and energy transition in all our markets through collaborative and collective engagement. Recognising this, as we support the move to low-carbon economies in these emerging markets, we strive to ensure that the transition is a just and inclusive one for all of society: a transition that supports sustainable growth and economic health within our local markets and communities.

This section includes:

An index is included in the reference section on page 68 to demonstrate how we are meeting the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).

Stewarding the human impacts of climate change / continued

1 Climate-related metrics and targets

Our focus on decarbonisation of our investment portfolio, to steward the human impacts of climate change, recognises that climate change presents long-term risks to the sustainability of our business. Catastrophic climate change, or the anticipation thereof, could also have a systemic impact on financial markets before the climate change occurs.

In May 2021, we announced both long and short-term pledges for decarbonising our investment portfolio, through which Prudential can also play our part in the transition to a global low-carbon economy and the collective efforts to limit the rise in global warming. Our long-term pledge is to become 'net zero' by 2050, with the short-term pledges discussed in the table. These pledges are aligned to the Paris Agreement, which invites parties to commit to holding the increase in the global average temperature to well below 2°C above pre-industrial levels, and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognising that this would significantly reduce the risks and impacts from climate change. We continue to review and update our ESG strategy in line with our business strategy, and all of our climate metrics and targets will be regularly reviewed to take into account evolving scientific data and stakeholder expectations.

Our targets, as set out below, are for our investment portfolio, which includes both listed equities and corporate bonds, while excluding assets held by joint venture businesses and assets in unit-linked funds, as we do not have full authority to change the investment strategies of these.

Our short-term targets and progress made

Short-term climate target	Progress up to end of 2021	Metric rationale
25% reduction in the carbon emissions of our investment portfolio by 2025 against our 2019 baseline	**By the end of 2021, we had reduced the weighted average carbon intensity (WACI) of our investment portfolio by 23 per cent against our 2019 baseline, placing us on track to achieve the 25 per cent target by 2025. We operate in both developed and emerging markets in Asia and Africa and the carbon footprint of investments in these markets, which underlies our WACI, are higher than in areas such as Europe. Investment decisions such as strategic asset allocation, portfolio construction and investment selection can influence the direction of the WACI, as can changes in the carbon intensity of the underlying businesses in which we invest. Implementing our coal policy was a key driver of the reduction in WACI.** **Looking forward, we have a range of investment and active ownership strategies available to further reduce the WACI, including the orderly implementation of our current coal policy during 2022. In addition, Eastspring seeks to actively engage with companies in the investment portfolio in order to influence them to adopt positive strategies to further improve carbon efficiency, and to work with sub-fund managers on reducing the emissions of their funds while maintaining a focus on performance.**	We use the WACI as a proxy for the transition risk in our investment portfolio: a higher WACI normally indicates that an investment portfolio has to transition more extensively to align with the Paris Agreement. By reducing the WACI of our portfolios, we also support the transition to a low-carbon economy. A key benefit of using WACI is that it allows comparisons between different investment portfolios, which is very important in our roles as asset owner and asset manager.
Divestment from all direct investments in businesses which derive more than **30%** of their income from coal, with equities to be fully divested by the end of 2021 and fixed-income assets by the end of 2022	**During 2021 we divested from all direct equity investments in businesses which derive more than 30 per cent of their income from coal, whether from mining or energy production. We remain on track to divest by end of 2022 from fixed-income assets in businesses meeting the same criteria.**	We believe our coal policy supports a just and inclusive transition in the markets where we operate, as discussed in the *Supporting a just and inclusive transition* section on page 32. When considering different thresholds, each was tested against whether it supported a just and inclusive transition and fit our requirements on risk and return. Companies that are highly dependent on coal are a stranded asset risk, while a well diversified portfolio is important, but challenging for our businesses in emerging markets, which invest in underdeveloped capital markets. Ultimately, the threshold for our coal policy was set so as to balance the risk and return, while also allowing companies in those markets to phase out of coal in an inclusive manner.
A target to engage with the companies responsible for **65%** of the absolute emissions in our investment portfolio	**Eastspring has developed a process to meet this engagement target and has made progress in 2021 towards meeting the target by reviewing 44 per cent of these investee companies, and engaging with 31 per cent of the same group.**	We aim to support a just and inclusive transition to a low-carbon economy through our engagement target, based on a belief that engagement is preferable to divestment to secure a just transition. Engagement is a core part of providing effective stewardship and we seek to encourage business and management practices that support sustainable development through constructive interaction, based on our in-depth knowledge of the companies and their business environment.

Stewarding the human impacts of climate change / continued

In 2021 we recorded a reduction in the WACI of our investment portfolio of 23 per cent against our 2019 baseline. However, as we seek to achieve a just and inclusive transition towards a low-carbon economy, some of the actions which we may take in pursuit of our long term carbon reduction ambitions may create short to medium term volatility in our WACI performance. For example, there are companies in our markets who currently have high levels of emissions, but are committed to transition and require financing to support this. In investing in green bonds from such companies, this will have the impact of increasing the WACI of our investment portfolio in the short to medium term, until the underlying companies' emissions reduce, as the green bond also takes the score of the overall company. We believe supporting such companies is consistent with our inclusive transition policy. Our public target nevertheless remains to achieve a 25 per cent reduction in WACI in our investment portfolio by 2025, whilst continuing to support a just and inclusive transition in the markets in which we operate.

	2021	2019	Change (%)
Weighted average carbon intensity (WACI)	296*	386*	(23)
Coverage	69%	67%	

* Within the scope of EY assurance – see page 12.

Data availability remains an ongoing challenge, as is reflected in the coverage level of the WACI calculation for our investment portfolio in the table. We continue to work with data providers and our asset managers to improve the availability of data.

We have reviewed climate metrics being adopted by the financial sector for their appropriateness, data availability (ie coverage) to support them and their relevance to our markets. We selected a suite of metrics to measure our exposure to climate change to utilise the strengths of specific metrics while also addressing their shortcomings. Absolute emissions measure the total carbon footprint associated with the investments held in an investment portfolio, whereas WACI compares that carbon footprint to the revenue also associated with the investments in the investment portfolio. We use absolute emissions to monitor our engagements (so as to help reduce absolute levels of greenhouse gas emissions) and WACI for our investment portfolio of assets (so as to be able to compare progress in intensity improvements on different investment portfolios, which is very important in our roles as asset owner and asset manager).

An example of the need for the use of different metrics is the current treatment of green bonds: certified green bonds have the same carbon footprint as a conventional bond from the same company, even though the green bond is issued to support transitioning to, for example, low-carbon operations. This equal treatment could disincentivise purchasing such green bonds from companies who are committed to transition and require financing. Using a suite of intensity and absolute emissions metrics helps overcome these unintended consequences.

Our metrics and targets for the Scope 1, 2 and 3 footprint of our operations are discussed in the *Management of direct operational environmental impacts* section on page 30 of this report.

We actively monitor and provide feedback to industry bodies, such as on the TCFD consultation on Proposed Guidance on Climate-related Metrics, Targets and Transition Plans. We continue in collaboration with our asset management and asset owner business units to develop further metrics that are appropriate for our business, to support enhanced management and reporting for climate risk, and to integrate into broader investment processes aligned with our responsible investment framework.

Pru Life UK study offers key insights on climate change

Our business in the Philippines, Pru Life UK, commissioned an independent study (which can be found here) to better understand the impact of climate change on Filipino families. The pioneering study explores the health impacts of climate change and their potential pressures on financial security and wellbeing.

The impacts of climate change on physical and mental health will eventually affect the financial health of individuals, households and communities. While it is hard to calculate the actual cost of climate-sensitive diseases, it is known that healthcare needs lead to depletion of savings resulting from hospitalisation and loss of incomes due to absenteeism. Therefore, financial security in anticipation of a warming planet is an urgent priority.

The paper concludes that:

- There is no disease group that is immune to the effects of climate change, and the incidence of some conditions is expected to increase as a result of climate change.
- Multiple responses will be needed for the variety of physical and mental health issues that are likely to arise.
- Climate change must be viewed as a public health issue.
- Rapid decarbonisation to stabilise the climate will be good not just for the planet but for people's health too.
- Financial security at all levels is a climate adaptation measure.
- Climate and health knowledge needs to be communicated to raise awareness and equip people with tools to contribute to both mitigation and adaptation.
- Building societal resilience to climate change and its health effects is also an urgent priority since climate change is already happening.

Stewarding the human impacts of climate change / continued

2 Identifying climate-related opportunities

We believe our strategic ESG framework, including the goal to decarbonise the investment portfolio while supporting a just and inclusive transition, is an important way in which we can meet our stakeholders' expectations and fulfil our stewardship obligations.

Over time, it reduces the Group's asset exposure to climate change risk – which includes both physical and transition risks – while also contributing to efforts to mitigate climate change by decarbonising the global economy.

We also recognise that the implementation of our strategic ESG framework could generate some climate-related opportunities for the Group.

As a significant investor and asset owner with long-term investment horizons and liabilities, the Group is in a position to invest in and develop products linked to climate mitigation and resilience.

In response to this, we are developing responsible investment products that channel our customers' savings towards investments such as the Asia Sustainable Bond Fund by Eastspring. More information on our ESG-related investment activity is available in the *Responsible investment* section starting on page 45, including increasing the ESG choices for our investment-linked products (ILP), as described in the *Capital allocation* section on page 50.

Climate change is also likely to drive demand for new health, insurance and savings products. New health products need to reflect the impact of climate change on human health through changes in the incidence and impact of diseases, and the emergence of new diseases. This topic is discussed in the *Making health and financial security accessible* section on page 14, which also explains how we are developing more products for underserved sections of the market.

3 Identifying and assessing climate-related risks

To enable us to continue to be a long-term and resilient business serving our customers, we must actively identify and assess how climate change can impact our business.

Our risk identification processes in our Group Risk Framework recognise thematic emerging and principal risks. ESG risks, which include climate risk, have previously been identified as a Group principal risk. The Group Risk Committee and the Board receive updates on the principal risks identified, the Group's exposure to these risks and subsequent management activities. More information is available in *section ii. of the risk management cycle* of the Risk Review report in our Annual Report and Accounts.

We actively participate in industry forums and networks, including the Chief Risk Officer (CRO) Forum, to further develop understanding and support collaborative action in relation to ESG risks, including climate change, and to remain aware of industry best practice as it develops. The emerging industry consensus, as expressed by both the Climate Financial Risk Forum and the CRO Forum, is for insurers to treat climate risk as a cross-cutting amplifier of the existing standalone risk types. As such, climate-related risks are considered within our existing risk management processes. By treating climate-related risk as a cross-cutting risk, we recognise that there could be significant interdependencies with, and impacts on, other established standalone risks, such as credit, market, insurance and operational risk. See the Risk Review report in the Annual Report and Accounts and *section ii. of the risk management cycle* for further information on the broader risk identification process.

During 2021, we continued to focus on developing our understanding of our exposure to actual and potential climate-related risks and their associated impacts on the Group, focusing on key local markets in Asia. We also identified several existing business activities and processes where risks may be heightened when a climate lens is applied. Building on the climate-related risk assessments carried out in 2020, a series of workshops were held with the appropriate subject matter experts across the Risk, Compliance and Security teams. These workshops explored in detail the potential impact of cross-cutting climate-related risks to existing risks and risk management processes across short, medium and long-term horizons.

CRO Forum participation

As a member of the CRO Forum, we contributed to the paper published in November 2021 which provides guidance on industry best practice for embedding ESG and sustainability risks into insurers' existing risk management framework ('Mind the sustainability gap – Integrating sustainability into insurance risk management' at www.thecroforum.org/category/publications/). We have used the concepts and approaches outlined in the paper across the Group during 2021 to further embed climate risk considerations into the Group Risk Framework.

Stewarding the human impacts of climate change / continued

Potential exposure to climate-related risks over the short, medium and long term:

Financial resilience

Our assets under management are at risk of physical climate risk in the long term. Some of our assets under management are in high emission, carbon-intensive and carbon-reliant sectors. These assets are exposed to transition risk in the short and medium term, potentially resulting in increased levels of price volatility, taxation, regulation and/or reduced demand, which could lead to impairments, downgrades and/or stranding if they fail to adapt, innovate or transition to a lower-carbon business model. We have limited financial exposure to such assets in high emission, carbon-intensive and carbon-reliant sectors, as set out in our *Climate-related metrics and targets* section.

Operational resilience

Climate change could have physical impacts on our operations. The impact from such climate events on operational resilience, including the impact on third-party providers and the servicing of our customers, is explored in our operational risk scenarios.

Insurance and product risks

Our strategy focuses on life, health and wealth products, which excludes us from underwriting greenhouse gas-intensive activities. Climate change could result in changes in mortality, morbidity and/or persistency for our life and health underwriting portfolio. The overall financial impact should be mitigated by our ability to reprice contracts if needed and develop new products.

Data and model limitations

Current limitations in financial climate data quality and availability, and asset and liability modelling tools make it challenging to accurately assess the financial impact on the Group, particularly for longer-term time horizons. We continue to assess the methods for quantifying the financial impact of climate risks as they evolve in the industry and also within the Group. We also use independent internal and external reviews.

Regulatory, legislative and disclosure expectations

The pace and volume of new climate-related regulation across the Group's markets could pose compliance and operational challenges that may necessitate multi-jurisdictional coordination. The increasing disclosure expectations of stakeholders heightens the potential for litigation risk associated with external reporting conveying a material false impression or misleading information. We continue to monitor and engage on regulatory and industry developments. Our governance process is designed to help avoid misstatements and/or overstatements in external reporting.

Strategy implementation

As the Group implements its ESG strategy and climate-related commitments, there is a continuing need to balance potentially different interests, expectations and objectives, both within and across stakeholder groups. We have regular internal and external engagement to identify potential required trade-offs and assess the implications of them through our governance structures.

While many climate-related risks are common at Group and business level, the nature, focus and impact of these risks can differ across the Group's markets. Our emerging risk process, at both the Group and the business level, helps ensure that we continue to quickly identify and adapt nimbly to new and evolving climate change and ESG topics.

4 Managing and responding to climate-related risks

The management and mitigation of ESG and climate-related risks is enacted through our Group Governance Manual, which includes a number of ESG-related policies that support the implementation of our ESG strategy.

Following the series of workshops held with Risk, Compliance and Security subject matter experts, we identified initial areas of the Group Risk Framework to update in order to reflect climate considerations. The main updates are noted below.

The concept of climate as a 'cross-cutting risk' was included in the annual refresh of the Group Risk Framework and associated policies, and qualitative references to ESG considerations have been added to the Group Risk Appetite framework, specifically focusing on the Group's externally communicated ESG commitments.

Updates to the Enterprise Risk Management framework in 2021 included changes to the Group's non-financial risk appetite statements to consider risks through a stakeholder lens. This stakeholder-focused approach recognises the importance of considering topics, including climate change, from the perspective of both their impact on the Group and the Group's impact on its wide range of stakeholders (a concept known as 'double materiality'). It also recognises that what is considered financially material to the Group may change rapidly (a concept known as 'dynamic materiality'), particularly in light of rising stakeholder influence, greater international connectivity, and the increased transparency and speed of information exchange. It also supports a more forward-looking approach to identifying emerging ESG considerations.

Other enhancements included adding our ESG-related models, including the tools developed for measuring and managing the Group's investment portfolio decarbonisation, to the scope of the model and user developed application (MUDA) policy. Additionally, the updated Outsourcing and Third-Party Supply Policy includes a direct reference to ESG, and incorporates Responsible Supplier Guidelines on ESG topics including labour, health and safety, and ethics.

ESG considerations, including those associated with climate, have been incorporated into core decision-making processes, including:

- **Remuneration:** changes to the incentive plan have been aligned with the Group's externally communicated decarbonisation targets.
- **Strategic Decisions, Mergers and Acquisitions:** the policies and processes supporting significant decisions and transactions have been updated to systematically include consideration of how the matter requiring approval supports and/or impacts the Group's ESG strategy.
- **Strategic and Business Planning and Performance Management:** climate and ESG considerations have been included within the business planning process.

The industry's understanding of climate-related risks is evolving quickly. To address this and recognising the cross-cutting nature of climate risk, we have carried out a number of training initiatives to raise the level of knowledge and understanding of our colleagues:

- The Group Risk Committee received a briefing on the embedding of climate risk within the enterprise risk management framework.
- During 2021, we ran a Group-wide monthly climate risk forum, with participation from specialist risk teams, representatives from local business risk teams and other functions, including Actuarial and the Investment teams.
- This training was supplemented with regular direct engagement with our larger businesses to address specific climate-related themes relevant to their local markets. Follow-up presentations covered topics including the practicalities of climate scenario analysis and guidance on incorporating climate considerations in the business plan risk assessment process.
- We provided specific training sessions to business continuity and operational risk colleagues on our third-party physical climate risk platform to support the adoption of the platform across our businesses.
- We delivered a series of training sessions on ESG, including dedicated sessions on climate-focused topics, to over 500 members of the Risk, Compliance and Security function. These sessions were led by the appropriate business risk owners and subject matter experts, ensuring that experiences and lessons learned from climate-focused activities were shared broadly across the Group's business locations and teams.
- Across the broader business, climate risk awareness was increased through functional and business awareness sessions and workshops as well as specific sessions on business planning. Climate change considerations were also a specific focus during a briefing session with the chairs of the Audit and Risk Committee of the major businesses.

Stewarding the human impacts of climate change / continued

5 Climate-related scenario testing

Scenario testing is a key tool to improve understanding and support decision-making. Scenario testing is particularly useful for raising awareness of climate change risks due to the wide scope and unknown timing of potential mitigation and adaptation actions.

Climate scenarios used

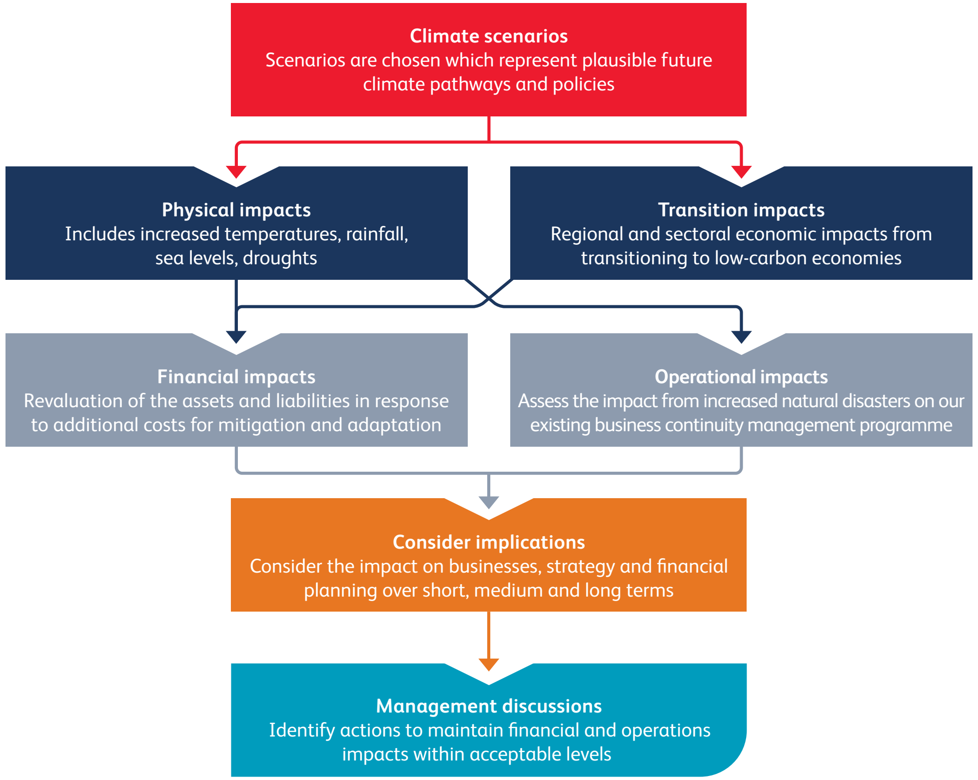
During 2021, we continued developing our scenario testing approach for climate change. Investigating different methodologies appropriate to our nature, scale and complexity also supports our ability to engage with our Group and local business regulators on this topic. We monitored and evaluated developments in climate scenario testing, including publications by our Group and local regulators and global bodies, such as the International Association of Insurance Supervisors (IAIS), the Network for Greening the Financial System (NGFS), the Principles for Responsible Investment (PRI) and the International Energy Agency (IEA).

We use three scenarios to identify risks over the short, medium and long term:

- **Orderly transition scenario:** Temperature increases are kept well below 2°C through the orderly introduction of climate policies, in line with the second-lowest United Nations IPCC emissions pathway, known as Representative Concentration Pathway (RCP) 2.6. This scenario includes transition impacts, in an orderly manner, as well as physical impacts in line with a 1.6°C increase in temperature.
- **Disorderly transition scenario:** Temperature increases are kept well below 2°C but with delayed and sudden introduction of policies, in line with RCP 2.6. This scenario includes transition impacts, in a disorderly manner, while still limiting the physical impacts by the end of the century in line with a 1.6°C increase in temperature.
- **Failure to transition scenario:** Temperature increases exceed 4°C with no further policies introduced beyond those already announced. Little transition impacts are included in the scenario while dramatic physical impacts are explored, in line with RCP 8.5.

The three scenarios provide plausible future outcomes and are constructed to simulate the complex and non-linear interactions between energy, economy and climate systems. They also account for various policy and technology developments, supporting a sophisticated exploration of different plausible futures and an understanding of the impacts from trade-offs between the policy and technology options. The insights from the scenario testing work were reported in the Group's Own Risk and Solvency Assessment report, which continues to be provided to the Board.

Summary of how we use climate change scenario testing



Impact on assets and insurance liabilities

We used three commonly applied scenarios, comparable to those from the NGFS and Bank of England, to quantify the exposure of the Group's insurance balance sheet assets and liabilities to physical and transition climate-related risk.

Each scenario is translated into sensitivities to economic factors, which are then applied to the Group's assets and liabilities to quantify the potential financial impacts of climate change relative to our base assumption.

The scenario with the largest overall impact on the Group balance sheet is the failed transition scenario, where physical climate change impacts in the longer term, which could result in financial market impacts sooner. The disorderly transition scenario has the biggest impact in the short term as markets assimilate policy changes, resulting in limited impact in the medium and long term. As expected, the orderly transition scenario has the lowest overall impact on the Group balance sheet. Our analysis did not take account of the potential actions available to the Group to mitigate the impact, in line with emerging industry practice, and is an area where we expect to consider further the opportunities available.

Though the Group remains exposed to financial impact from climate change, the results for each scenario were not outside observed market volatility and therefore do not indicate the need for an explicit allowance for climate change in the assumptions used for the liability valuations or observed market values.

An additional scenario exercise applied to a sample of our carbon-intensive holdings highlighted the potential range of impacts on equity prices and corporate bonds between those companies that have started to transition and those who have not. A key challenge identified in this exercise is the limited availability of disclosed climate-related financial reporting across our Asia and Africa holdings, which is required for sophisticated climate scenario models. We expect such limitations to be overcome as more climate disclosures occur in these regions, potentially using established frameworks such as the TCFD or the anticipated standards from the International Sustainability Standards Board (ISSB).

Stewarding the human impacts of climate change / continued

We focus on life, health and wealth products and therefore do not have greenhouse gas (GHG) intensive activities in our underwriting portfolio. While climate change can impact morbidity, mortality and persistency, the impact of climate change does not directly alter the Group's assumptions for its insurance business based on the annual review of experience. If experience or exposure were to change, for example due to a step change in long-term morbidity and/or mortality expectations in a particular region due to climate events, the financial impacts from climate-related risks on our insurance liabilities could be more significant and would be allowed for as part of the regular review. However, the longer-term impact to the Group should be managed by our ability to reprice contracts if needed and develop new products. Work continues on plotting significant clusters of customer locations to assess the potential risk from physical climate events to our known customer base.

The complexity and long-term nature of these climate scenario tests result in the need for some simplifications in the exercises, in line with developing industry practices, such as using a static balance sheet. Simplifications are also applied in estimating the sectoral and regional impacts. The regional impacts are particularly important for Prudential given our operational footprint across Asia and Africa. We participate in and contribute to bodies working towards overcoming these simplifications, as described in the *Supporting a just and inclusive transition* section, starting on page 32.

Climate scenario testing has helped develop our understanding of the nature of the climate risk the Group faces, reinforcing that the main financial risk from climate change is to the asset side of the balance sheet. This is consistent with our business model: as a major asset owner and manager, we rely on investment returns to meet the longer-term obligations of our liabilities and remain exposed to risks that could interrupt or impair those returns, such as a disorderly transition. This also reinforces the case for our strategic objective to decarbonise the investment portfolio.

Impact on financial planning and strategy

As part of our annual strategy and business plan exercise, we applied scenarios comparable to the disorderly transition scenario, ie the 2°C scenario, which has the largest financial impact over the relevant period, to the economic and non-economic assumptions underlying the exercise. The scenario showed the Group's financial plan remains viable over the period under assessment.

Impact on our operations

We are also exposed to climate-related physical risk, which may threaten our real estate, corporate facilities, infrastructure and other real assets, and customers.

Our business continuity management programme assesses the risk to our staff and operating locations from natural disasters, including those caused by climate-related physical impacts, such as increased frequency and severity of tropical storms or increased flooding. We remain focused on maintaining and enhancing our organisational resilience.

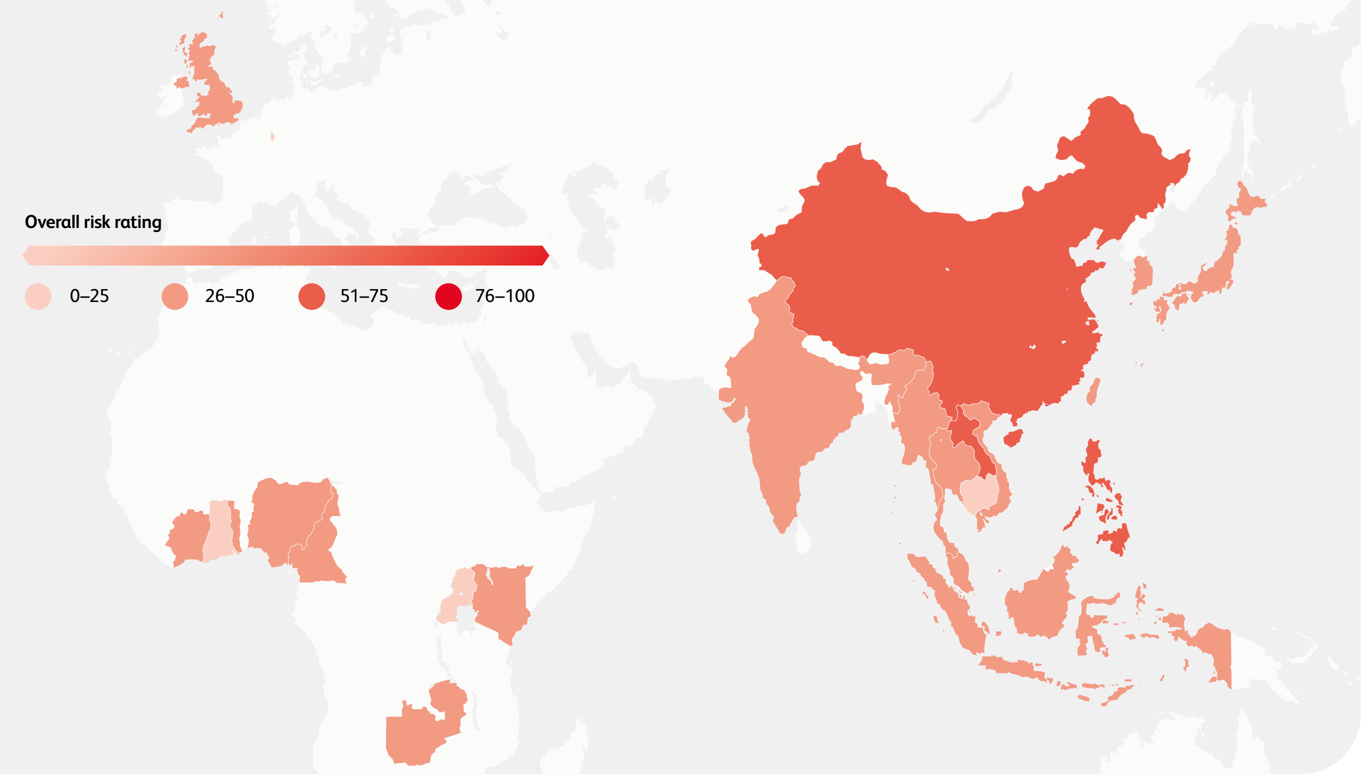
We use a third-party provider to assess our exposure to physical climate risks and the results of this can be seen in the diagram below. Exposure estimates are based on the highest United Nations IPCC emissions pathway, known as RCP 8.5, which is a high-emissions scenario predicted to lead to temperature increases in excess of 4°C by the year 2100 from the average temperatures between 1850 and 1900, resulting in significant climate-related physical impacts. The diagram shows the extent to which our operations could be exposed to the physical impacts of climate change, if there is no transition to lower-carbon economies.

The climate data used by the third-party provider is derived from internationally recognised sources, including IPCC data sets and modelling. The validity of this data has been spot-checked by back-testing global events.

We continue supplementing existing business continuity management activities with scenario analysis to identify additional areas of vulnerability that may arise due to climate change, including potential impacts on our properties, operations, third-party supply chains and customers.

Utilising our third-party provider's platform, pilot scenarios were developed during the year to assess climate-related impacts within local businesses. Specifically, the operational risk scenarios were used to investigate how a severe typhoon and/or flood would cause property damages and business interruption, providing insight in the potential increases in operational costs and/or reputational impact.

Impact of RCP 8.5 scenario on Prudential's locations of operation



Stewarding the human impacts of climate change / continued

6 Managing our direct operational environmental impacts

We seek to actively reduce our direct impact on the environment in line with our purpose of improving the lives of our customers and their communities. To understand our impact, we measure our environmental performance and take action to improve our performance.

Our Group Environment Policy forms part of our Group Governance Manual and applies to our operational properties worldwide, guiding our approach to the management of the direct impacts of our businesses. This includes compliance with environmental laws and regulations with respect to emissions, energy consumption, water use, waste disposal, environmental supply chain management and the adoption of risk management principles for all property-related matters.

The highlights of our 2021 environmental performance are available below. Our 2021 reporting covers the period 1 October 2020 to 30 September 2021, and selected indicators, as noted in the disclosure tables below, are assured by EY. On 13 September we demerged Jackson, our US operations. These metrics and commentary cover the performance of the continuing Prudential Group for 2021 and form the new baseline data from which we will measure future environmental performance.

As the fall in our 2021 emissions is ahead of the reduction trajectory required to meet our 2030 target for Scope 1 and 2 emissions, we have not purchased any carbon offsets for Scope 1 and 2 emissions in 2021. Data in respect of business travel emissions is collected and reviewed within the consideration of our broader operational emissions. Reflecting the previous structure of the Group, and the associated need to regularly travel to and from operations, we chose historically to offset our UK procured air travel emissions. Given the reduction in air travel as a result of the pandemic and the changes in the Group's structure, we no longer believe that adopting this approach on an ongoing basis is meaningful in the context of our broader climate change activities. Whilst we consider the ongoing role and value of offsets as they relate to business air travel, we have decided not to offset any air travel emissions for 2021. We continue to keep our policy around the use of offsets under review.

Group emissions data

Greenhouse gas (GHG) emissions are broken down into three scopes. We have included full reporting for Scope 1 and 2 and selected Scope 3 reporting. Scope 1 emissions are our direct emissions from the combustion of fuel, fugitive emissions and company-owned vehicles. Scope 2 emissions cover our indirect emissions from the purchase of electricity, heating and cooling. We have stated our Scope 2 emissions using both the location and market-based methods in line with the GHG Protocol Scope 2 Guidance. We recognise that our Scope 3 emissions footprint is greater than the emissions relating to our own operations, as reported under Scope 1 and 2. During 2021, we carried out a review of our Scope 3 emissions and more information on this is available below.

We aim to broaden the assured scope over time and as such, we are focused on improving data quality year-on-year, for example the expansion of our Scope 3 reporting in 2021, as detailed below and in the Basis of Reporting. We have also focused in 2021 on improving Scope 1 and 2 data collection from Africa and water and business travel data reporting from Asia.

A summary of our Scope 1, 2 and 3 emissions, excluding Jackson, is provided below, including a restatement of 2020 on the same basis. Data for Jackson, and the composite Prudential Group up until the point of the demerger of Jackson, can be found in the *Reference* section of this report.

The emissions table shows Scope 3 emissions on a consistent basis to those reported for 2020, and the expanded 2021 boundary, as follows:

- The inclusion of 2,001 tCO2e for Asia business travel meant our business travel emissions increased by 8.9 per cent to 2,139.5 tCO2e in 2021, reflecting the continued impact of travel restrictions and other control measures related to the Covid-19 pandemic, even with the enhanced assured reporting scope.
- Inclusion of the fuel and energy related activities generated Scope 3 emissions of 6,451 tCO2e in 2021. This category of emission is directly linked to Scope 1 and 2 emissions and therefore, the actions we are taking to reduce our carbon intensity in these areas will enable us to deliver reductions in these Scope 3 emissions.

Emissions Source (tCO_2e)	2021*	2020	Change (%)
Scope 1	1,481	1,378	7.5
Scope 2 – market based	19,986	23,608	(15.3)
Scope 2 – location based	21,547	23,525	(8.4)
Scope 3 (2020 boundary comparative)	160	1,998	(92)
Scope 3 (expanded 2021 boundary)	8,793	n/a	
Total: Scopes 1 and 2	21,467	24,986	(14.1)
Total: Scopes 1, 2 and 3 (2020 boundary comparative)	21,627	26,984	(19.9)
Total: Scope 1, 2 and 3 (expanded 2021 boundary)	30,260	n/a	
kg per m^2 – Scopes 1 and 2	58.22	66.72	(12.7)
Tonnes per employee – Scopes 1 and 2†	1.47	1.69	(13.0)
kg per m^2 – Scopes 1, 2 and 3 (2020 boundary comparative)	58.65	72.06	(18.6)
kg per m^2 – Scopes 1, 2 and 3 (expanded 2021 boundary)	82.07	n/a	

* Within the scope of EY assurance – see page 12 and the Basis of Reporting on the Prudential plc website which notes which Scope 3 categories were assured in 2021.

† Outside scope of EY assurance.

Stewarding the human impacts of climate change / continued

The Covid-19 pandemic has continued to affect our operations, with lockdowns and office closures for non-essential workers across the regions where we operate. Our global absolute Scope 1 and 2 (market based) GHG emissions across our occupied estate, excluding Jackson, were 21,467 tCO2e, down 14.1 per cent in 2021. Electricity use in our buildings is the largest contributor to our operational footprint at 19,986 tCO2e (market based), making up 93 per cent of our total Scope 1 and 2 emissions. The energy consumption associated with our employees working from home has not been captured in our reporting.

Monitoring our progress

Based on the site assessments undertaken in previous years, we have identified emissions reduction opportunities and developed target projections and emissions reduction roadmaps with each of our businesses. These roadmaps are being used to track delivery against our target.

In support of the implementation of these roadmaps, we have been working to strengthen the processes in place for communicating, collating, and reviewing environmental data. We have remained focused on sharing knowledge between our businesses, including via an online conference aimed at property management teams across our markets.

During 2021, we migrated the environmental data for our entire property portfolio into a single digital reporting platform. This platform allows us to visualise and interrogate the emissions performance of our property portfolio down to a single building. This level of granularity enables us to gain better insights where potential emission reductions can be found and to provide our business units with a tool to measure the impact of their sustainability actions. This will support us in tracking progress towards achieving our 2030 carbon reduction target.

Operational carbon reduction target

We have set a target to become carbon neutral across our Scope 1 and 2 (market-based) emissions by the end of 2030. We aim to deliver a 25 per cent reduction per full time employee (FTE) in our operational emissions from a 2016 baseline, then abating the remaining emissions via carbon offsetting initiatives.

We are ahead of the emissions reduction trajectory required to meet our 2030 target. However, we are aware that office closures and operational restrictions imposed to manage the spread of Covid-19 have played a part in the achievement of this reduction. We anticipate that as social distancing restrictions ease, and a more normalised level of operations resume in our offices, we will see a rebound in our Scope 1 and 2 emissions closer to normalised levels. Anticipating this partial rebound, we are developing and implementing reduction measures across our operations portfolio to address this anticipated increase and to ensure we continue to meet our target aspirations. We will continue to keep our performance and our target under review.

Leasing and fitting out our portfolio

The properties we occupy and the decisions we make around the leasing and fitting out of our facilities form a critical part in achieving our environmental objectives. During 2021, we updated our internal property approval process to require our local businesses to demonstrate that they have assessed the environmental impact associated with the proposed project.

We also developed internal guidance for incorporating environmental performance considerations into the office design process, such as using LED lighting with sensors, installing timers, lighting zones and maximising natural light. This guidance has been adopted for projects undertaken in Thailand, Kenya and the Philippines.

Two of these new offices became operational during 2021 and will generate energy and carbon reductions in the future.

We are also focusing on the materials used and the waste generated by office relocations. To reduce the waste from an office move in Malaysia, we worked with the landlord to reduce the requirements of the reinstatement clause in their contract, saving the disposal of 152 tonnes of waste being generated. Our business in Malaysia has recently used carpet tiles certified carbon neutral. This project used 900m^2 of flooring and resulted in a reduction of the embodied carbon of eight metric tons of carbon dioxide.

Stewarding the human impacts of climate change / continued

Scope 3 emissions review

During 2021, we carried out a review of our Scope 3 emissions to better understand which areas of our value chain contribute most significantly to our overall emissions footprint. The assessment was carried out in accordance with both the Greenhouse Gas Protocol and Partnership for Carbon Accounting Financials (PCAF) and considered all 15 Scope 3 categories.

Our review identified eight of the Greenhouse Gas (GHG) Protocol's Scope 3 categories that were relevant to Prudential. Of these Scope 3 categories, our most significant emissions are from our investment portfolio, which we are reporting for the first time in 2021. Data gaps across some of our Scope 3 categories remain and as Scope 3 data accuracy and methodologies continue to evolve, we will seek to align with best practice, and broaden the scope of reported Scope 3 categories. The table summarises our Scope 3 emissions review.

Enforcement actions and other regulatory events

No fines or regulatory actions occurred during the year for environmental incidents (2020: zero)

Category	Relevant	Why category is relevant or not	Reported in FY21	Assured
1 Purchased goods and services	Yes	There are emissions associated with the products and services we purchase, for example IT and professional services.	No	No
2 Capital goods	Yes	There are embedded emissions with the capital goods we purchase, for example IT hardware and furniture.	No	No
3 Fuel- and energy-related activities (not included in Scope 1 or Scope 2)	Yes	There are emissions associated with the extraction, production and distribution of the fuels and electricity that we purchase, including for business travel.	Yes	Yes
4 Upstream transportation and distribution	Yes	We generate emissions through third-party courier and logistics services.	No	No
5 Waste generated in operations	Yes	We generate emissions through the disposal and treatment of waste generated in our on-site operations.	Yes. Water data reported for UK and Asia. Waste data is UK only.	Partly, as set out in Basis of Reporting
6 Business travel	Yes	We generate emissions by travelling for business-related activities, including flights and land transport, booked through our travel partners.	Yes. UK and Asia only.	No
7 Employee commuting	Yes	We generate emissions through staff commuting and from remote working, however, we have a limited ability to influence these.	No	No
8 Upstream leased assets	Yes	We generate emissions from landlord-provided services, such as air-conditioning, that are not captured in our Scope 1 and 2 disclosures.	No	No
9 Downstream transportation and distribution	No	We do not sell products that are transported.	No	No
10 Processing of sold products	No	We do not process intermediate products.	No	No
11 Use of sold products	No	We do not sell products that have an associated energy use outside of our operations.	No	No
12 End-of-life treatment of sold products	No	We do not sell physical products that can be disposed.	No	No
13 Downstream leased assets	No	We do not lease assets to other entities.	No	No
14 Franchises	No	We do not operate any franchises.	No	No
15 Investments	Yes	We hold significant financial investments which generate emissions.	Yes (see *Climate-related metrics and targets* section on page 24)	Yes

7 Supporting a just and inclusive transition

As a steward of long-term capital, we seek to use our scale and expertise to drive decarbonisation at pace, and to do so in a way which is just and fully inclusive.

This means that we are continuously mindful of the need to implement our decarbonisation strategy in a way that acknowledges the nature of the markets in which we operate, and seeks to share the financial and social burden of the transition in a fair manner, promoting sustainable development for all stakeholders.

Our Asian and African markets include highly developed economies, such as Hong Kong and Singapore, that have diversified, service-led economies and mature financial markets. It also includes emerging markets that are more dependent on primary and energy-intensive industries. These emerging markets have a greater reliance on fossil fuels in their energy generation mix than developed economies. These countries' energy transition is likely to proceed at a slower pace, as acknowledged by the Paris Agreement and reflected in the countries' Nationally Determined Contributions.

Stewarding the human impacts of climate change / continued

Supporting a just and inclusive transition through our Responsible Investment targets

The need for a just and inclusive transition was an explicit consideration for Group while evaluating possible targets and commitments. This was brought to life specifically in the decision around our coal policy where in considering different thresholds, each was tested against whether it supported a just and inclusive transition. Ultimately, the threshold for our coal policy was set so as to balance our stewardship duties in developing markets, while also allowing companies in those markets to phase out of coal in a just and inclusive manner and encouraging companies in more developed countries to phase coal out quicker. In reviewing and approving the targets, the Board and its Responsibility and Sustainability Working Group (RSWG) took a specific interest in a just and inclusive transition aspects.

We further support an inclusive transition through our engagement targets, based on a belief that engagement is preferable to divestment to secure a just transition, though divestment may be the appropriate response in certain circumstances. Engagement is a core part of providing effective stewardship and we seek to encourage business and management practices that support sustainable development through constructive interaction, as described in the examples in our *Active ownership* section on page 47.

Policy engagement and advocacy

With operations in Asia and Africa, we are well placed to bring an emerging markets perspective to stakeholder discussions to help ensure the need for a just and inclusive transition in developing markets is considered in policy and regulation.

We regularly engage with regulators and monitor evolving climate risk-related initiatives that could develop into new regulation in the markets in which we operate. We consider the transition to a low-carbon economy to be essential and we engage constructively with trade associations, policymakers and NGOs to shape the evolution of regulation and standards relating to climate risk and transition.

Throughout 2021, we actively engaged with international standard setters, and with governments and regulators in the markets where we operate on key issues shaping the ESG policy environment. As in 2020, a major area of engagement with our host governments was the ongoing management of Covid-19 and the impact on our customers, communities and staff. We have engaged with governments to support their health priorities, including the use of digital solutions in healthcare and insurance, and in supporting financial inclusion. More information on our approach is available in the *Making health and financial security accessible* section on page 14. At the same time, attention on the effects of climate change and the role of the financial sector increased at both the international and national level (see Prudential and COP26 on page 34).

As well as direct engagement with governments and regulators, we worked with a number of trade associations and working groups to understand and inform approaches to international and national-level policy and regulations and to benefit from the collaboration and cooperation that comes from working alongside peers in industry to inform and understand policymaking.

The table below summarises the key stakeholders and topics we engaged with and the topics we contributed to.

Stakeholders and topics	Prudential contribution
At the international level, we closely followed the climate-related initiatives set out by both the International Association of Insurance Supervisors (IAIS) and the International Organisation of Securities Commissions (IOSCO)	> Ongoing discussions with the IAIS on how to assess and incorporate climate-related risks in its yearly Global Monitoring Exercise. > Early participation in the IAIS's Climate Task Force, established in October 2021 with the purpose of engaging with industry stakeholders to provide input to IAIS climate work. This will continue in 2022. > Engagement with, and feedback to the Taskforce on Climate-Related Financial Disclosures (TCFD) consultation on Proposed Guidance on Climate-related Metrics, Targets and Transition Plans.
We also monitored and contributed to a range of consultations through the IIF	> With the IIF, we led the creation of a working group within their Insurance Regulatory Committee to focus on how issues affect Asia-Pacific markets specifically, including on climate change and sustainability and digital transformation and the implications for financial inclusion. > We contributed to the following consultations via the IIF: – IOSCO ESG ratings consultation. – IFRS Foundation Exposure Draft on Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board (ISSB) to set IFRS Sustainability Standards. – IIF Sustainable Finance Working Group (SFWG) response to the TCFD public consultation on Climate-related Metrics, Targets and Transition Plans. – IAIS Application Paper on the Supervision of Climate-related Risks in the Insurance Sector.
As governments and regulators in the markets we operate in have developed their policies and regulations to support sustainable finance, we have engaged actively in the policy development process	> The Group CEO's membership of, and participation in, the Monetary Authority of Singapore's International Advisory Panel (IAP), which included a focus on national and regional sustainable finance priorities. > Membership of Singapore's Green Finance Industry Task Force's Workstream on Disclosure. Our Singapore business provided inputs to the development of a best practices disclosure document, which sets out pathways for financial institutions (specifically banks, asset managers and insurers) to adopt and put in place TCFD recommendations based on the different stages they are at in their sustainability reporting journey. Our Singapore business also provided responses to the SGX Consultation Paper on Climate and Diversity, and ESG Metrics. > Response to Indonesia's regulatory requirements to submit a Sustainable Finance Action Plan (SFAP). > Participation in the Mayor of Shanghai's annual International Business Leaders' Advisory Council meeting, with a paper on developing Shanghai's role in sustainable finance.
Engaged with UK policymakers and regulators during its COP Presidency on UK listing requirements and international policymaking	> Membership of the CBI's Sustainable Finance Working Group. > Input to the UK Financial Reporting Council consultation on the use of scenario analysis by FTSE350 companies. > Participation in an ABI roundtable to help provide feedback on the PRA/FCA Climate Financial Risk Forum Scenario Analysis Working Group's draft Scenario Analysis Guide for Insurers and Asset Managers.

Stewarding the human impacts of climate change / continued

Memberships of trade associations, such as Asia House, the UK-ASEAN Business Council and the China-Britain Business Council, and a number of British and European Chambers of Commerce, enabled the organisation of, and participation in roundtables and meetings with policymakers on green and sustainable finance, healthcare and digital issues, often virtually given the continuing restrictions on international travel. Green and sustainable finance also featured in various government-to-government and regulatory dialogues that took place through the year, and into which Prudential advocated relevant priorities and perspectives. Through membership and chairmanship of the EU-ASEAN Business Council, contributions were made to a range of policy papers and events covering issues including plastics, energy transition, healthy ageing, fuel economy and fuel standards, and digital tools for affordable protection, health and wellness.

Prudential and COP26

A major focus of policymakers, regulators and business in 2021 was the preparation for and meeting of the UNFCCC's Conference of Parties (COP26), under the UK and Italian Presidency, with the meeting from 31 October to 13 November 2021.

Through 2021, Prudential worked with the UK government's COP Unit and UK embassies in our markets on key themes ahead of COP26. We participated in local Energy Transition Councils facilitated by the UK government in a number of ASEAN markets. We also participated in green finance workshops organised by the UK government or other partners in collaboration with domestic policymakers.

At COP26, across a range of activities, the Chair, Group CFO and COO and senior Prudential representatives highlighted the importance of an inclusive transition in Asia and Africa; the challenges of addressing coal retirement and investment in renewables in developing markets; and the framework for financial market participants to achieve net-zero goals – for example, the creation of an International Sustainability Standards Board (ISSB) to deliver a global baseline for sustainability-related disclosure standards. Prudential partnered with the GHS@ COP26 conference, which took place during COP26, led by the City of London Corporation and the Green Finance Institute, to amplify these messages and initiatives.

Prudential supported the publication during COP26 by the World Economic Forum (WEF) of a set of principles to ensure a 'Just and Urgent Energy Transition', while Don Kanak, chairman of Prudential Insurance Growth Markets, took part in the Asian Development Bank's partnership launch for the development of an Energy Transition Mechanism, alongside the Indonesian and Philippine governments.

We developed and contributed to a range of advocacy and position papers and events covering a broad range of issues from climate and health to financial inclusion. Examples include Prudential's Philippines business, Pru Life UK, which commissioned a study that aimed to support greater understanding of the effects of climate change on Filipinos' health and wealth, and to guide the industry and government in developing practical preparation and mitigation strategies (see case study).

With support from Prudential Singapore, EuroCham Singapore produced a 'Future of Healthcare and Wellbeing White Book, 2021-2022', including a paper on 'Healthcare and Innovation – a Healthcare financier perspective' by Prudential. We were the headline sponsor of the Singapore FinTech Festival 2021, with a major focus on the role and impact of digital innovation on expanding financial inclusion. We participated in the Commonwealth Trade and Investment Summit in September 2021, highlighting the role of technology in expanding financial and health inclusion. We sponsored the CamTech 2021 Summit which included a focus on the potential for digitisation to drive inclusion and on green finance.

Energy Transition Mechanism

Coal-fired power plants represent a fifth of total global carbon emissions, and nearly three-quarters of emissions from the electricity and heating sector. Given the global reliance on coal, the private and public sectors must work together to support the transition to a low-carbon economy. The development of the Energy Transition Mechanism (ETM) is an example of the type of project that will be needed, which is being trialled in Indonesia and the Philippines. The ETM concept was developed by Don Kanak, Chairman of Prudential Insurance Growth Markets.

The ETM is a scalable public-private partnership that can be used to acquire and then retire coal-fired power plants well before the end of their useful life, in an orderly and just way. The ETM proposes that an investment fund is established in collaboration with national authorities in order to purchase and retire coal-fired power plants within 10 to 15 years, cutting short their expected lifetimes of 30 to 40 years. A complementary facility would channel proceeds into renewable power, grid upgrades and support for workers and communities. In this way, the ETM would help developing countries to finance an orderly transition towards less reliance on coal in the total energy mix and have access to affordable renewable power.

In 2021, the Asian Development Bank (ADB) commissioned a study to validate and refine the ETM concept in Indonesia, the Philippines and Vietnam. After the first study was completed, the ADB launched a detailed feasibility study of operationalising the ETM in Asia, with a pilot in late 2022 in Indonesia and the Philippines. The 'Southeast Asia ETM Partnership' was formally launched in November 2021 at COP26, with attendance from senior officials in developed and developing countries and philanthropists.

We continue to support the ETM as an example of the practical private-public solutions needed to progress the energy transition and we look forward to seeing the outcome of the detailed feasibility study in Indonesia and the Philippines.

Sustainable Development Investment Partnership (SDIP)

The SDIP is a multi-stakeholder initiative under the World Economic Forum and OECD, of which Prudential and over 40 other companies, foundations, multilateral development banks and governments are members. Its goal is to mobilise finance at scale in developing countries in support of the Sustainable Development Goals. Through the SDIP, we work with public and private sector institutions in emerging markets, particularly in South-east Asia, to scale domestic and international investment in sustainable infrastructure and promote energy transition.

Joining the Net Zero Asset Owner Alliance

In June 2021, we joined the United Nations-convened Net Zero Asset Owner Alliance (NZAOA). The NZAOA is a network of institutional investors committed to the decarbonisation of their investment portfolios with support from scientific advisers and collaborators, including the Partnership for Carbon Accounting Financials and the Science Based Targets initiative.

In joining the NZAOA, we aim to bring an emerging markets perspective to the discussions on investment portfolio decarbonisation, which is critical to ensure that the specific needs of those developing markets are addressed. Since joining the NZAOA, we have participated in a range of discussions, including updates to the NZAOA's target setting protocol, inclusion of additional asset classes such as sovereign bonds in carbon accounting, engagement and protocols. Additionally, we have taken the initiative to set up a new sub track, within the NZAOA, focused on financing the transition in emerging markets.

Working with SDIP, we became an initial signatory of the 'Principles for Financing a Just and Urgent Energy Transition' (JUET Principles), launched at COP26. These principles create a better context for the developed countries to step up their financial assistance to the emerging markets and complement the ETM through creating the right enabling environment to facilitate large-scale and urgent energy transition in developing economies.

Work is underway to further explore where the SDIP and the EU-ASEAN Business Council can work together with the Net Zero Asset Owner Alliance to increase the voice of emerging markets in transition finance.