

## Risk review

# Thoughtful risk management through advocating the interests of *our people, customers, regulators and shareholders*

## 1 Introduction

Prudential's Group Risk Framework, risk appetite and robust governance have enabled the business to manage and control its risk exposure throughout market volatility and uncertainty in 2023 to support the Group's strategy of delivering sustainable value for all our stakeholders. As Prudential focuses on executing its new strategy across Asia and Africa, the Group-wide Risk, Compliance and Security (RCS) function has continued to provide risk advice, recommendations and assurance, as well as engage with Prudential's Group-wide supervisor, the Hong Kong Insurance Authority (IA), on critical activities, while overseeing the risks and implications to the ongoing business with the goal of ensuring that the Group remains within its approved risk appetite. The Group effectively leverages its risk management, compliance and security experience in more mature markets, applying it to its growth markets as appropriate to their respective risks and the extent of their challenges under the complex operating environment, and reflective of opportunities, customer issues and needs, and local customs. Prudential will continue to take a holistic and coordinated approach in managing the increasingly dynamic, multifaceted and often interconnected risks facing its businesses.

Below we explain how we manage risk, including through our risk governance framework and processes. We then describe the principal risks the Group faces, including how each principal risk is managed and mitigated, followed by a detailed description of the specific risk factors that may affect our business, the Group and our stakeholders.

## 2 Risk governance

### a System of governance

Prudential has in place a system of governance that embeds a clear ownership of risk, together with risk policies and standards to enable risks to be identified, measured and assessed, managed and controlled, monitored and reported. The Group Risk Framework, owned by the Board, details Prudential's risk governance, risk management processes and risk appetite. The Group's risk governance arrangements are based on the 'three lines' model. The 'first line' is responsible for taking and managing risk within the risk appetite, while the 'second line' provides additional independent challenge, expertise and oversight to support risk and compliance management. The role of the 'third line', assumed by the independent Group-wide Internal Audit function, is to provide objective assurance on the design, effectiveness and implementation of the overall system of internal control. The Group-wide RCS function reviews, assesses, oversees and reports on the Group's aggregate risk exposure and solvency position from an economic, regulatory and credit ratings perspective.

In 2023, continuous efforts have been made to ensure the appropriateness of the level of Group governance that promotes individual accountability in decision-making and supports the overall corporate governance framework to provide sound and prudent management and oversight of the Group's business. The Group also regularly reviews the Group Risk Framework and supporting policies, including to ensure sustainability considerations, which form an integral part of the wider Group governance, are appropriately reflected in policies and processes and embedded within all business functions.

### b Group Risk Framework

#### i Risk governance and culture

Prudential's risk governance comprises the Board organisational structures, reporting relationships, delegation of authority, roles and responsibilities, and risk and compliance policies that have been established to enable business decision-making with respect to control activities and risk-related matters. The Group Risk Committee (GRC) leads the risk governance structure, supported by independent Non-executive Directors on the risk committees of the Group's major businesses. The GRC approves changes to the Group Risk Framework and the core risk and compliance policies that support it, and has direct lines of communication, reporting and oversight of the risk committees of the Group's major businesses. The chief risk and compliance officers of the Group's major businesses and the managing directors of the Group's Strategic Business Groups are also invited to the Group Executive Risk Committee, the advisory committee to the Group Chief Risk and Compliance Officer. The chief risk and compliance officers of the Group's major businesses also attend GRC meetings on a rotational basis.

Risk culture is a strategic priority of the Board, which recognises its importance in the way the Group conducts business. A revised set of fundamental values was rolled out across the Group in 2023, referred to as 'The PruWay', that serves as the Group's guiding principles to ethical and authentic conduct. These values apply equally to all members of Prudential and its affiliates. The Responsibility & Sustainability Working Group (RSWG) supports its responsibilities in relation to implementation of sound culture considerations in the ways we operate, as well as embedding the Group's Sustainability Strategy and overseeing progress on customer, culture, people and community matters. The PruWay defines how Prudential expects business to be conducted to achieve its strategic objectives, to build a culture of trust and transparency that allows our people to thrive, and to deliver sustainable value for all our stakeholders: customers, employees, shareholders and the communities in which we operate.

The Group Risk Framework and underlying policies support sound risk management practices by requiring a focus on customers, longer-term goals and sustainability, the avoidance of excessive risk taking, and highlighting acceptable and unacceptable behaviours. This is supported by: the inclusion of risk and sustainability considerations in performance management and remuneration for key executives; the building of appropriate skills and capabilities in risk management; and ensuring that employees understand and care about their role in managing risk through open discussions, collaboration and engagement. The GRC has a key role in providing advice to the Remuneration Committee on risk management considerations to be applied in respect of executive remuneration.

Prudential's Group Code of Conduct and Group Governance Manual, supported by the Group's risk-related policies, are reviewed regularly. A revised Group Code of Conduct (the Code) was launched in November 2023 to further enhance risk culture and awareness underpinning operational and financial discipline. The Code lays down the principles and guidelines that outline the ethical standards and responsibilities of the organisation and our people. Supporting policies include those related to financial crime, covering anti-money laundering, sanctions, anti-bribery

and corruption, conduct, conflicts of interest, confidential and proprietary information and securities dealing. The Group's Third-Party Supply and Outsourcing Policy requires that human rights and modern slavery considerations are embedded in material supplier arrangements. Procedures to allow individuals to speak out safely and anonymously against unethical behaviours and conduct violations are also in place.

Further details on the Group's sustainability governance arrangements and strategic framework are included in the Group's 2023 Sustainability Report.

## ii. The risk management cycle

The Group Own Risk and Solvency Assessment (ORSA) is the ongoing process of identifying, measuring and assessing, managing and controlling, monitoring and reporting the risks to which the business is exposed. It includes an assessment of capital adequacy to ensure that the Group's solvency needs are met at all times, as well as stress and scenario testing that also includes climate scenarios.

### Risk identification

The Group identifies principal risks in accordance with provision 28 of the UK Corporate Governance Code and the Group-wide Supervision (GWS) guidelines issued by the HKIA. The Group performs a robust assessment and analysis of principal and emerging risk themes through the risk identification process, the Group ORSA report and the risk assessments undertaken as part of the business planning review, including how they are managed and mitigated, which supports decision-making. Top-down and bottom-up processes are in place to support Group-wide identification of principal risks. The Group's principal risks, which are reported and managed by the Group with enhanced focus, are reviewed and updated on a regular basis.

An emerging risk identification framework also exists to support the Group's preparations in managing financial and non-financial risks expected to crystallise beyond the short-term horizon. The Group's emerging risk identification process recognises the dynamic materiality of emerging risk themes, whereby the topics and the associated risks that are important to the Group and its respective key stakeholders can change over time, often very quickly. This is often seen for sustainability (including environmental, social and governance (ESG) and climate-related) risks, which impact the Group's reputation given evolving stakeholder expectations.

The risk profile assessment is a key output from the risk identification and risk measurement processes and is used as a basis for setting Group-wide limits and assessment of management actions which could be taken to conserve and aid stakeholder value creation.

### Risk measurement and assessment

All identified risks are assessed based on an appropriate methodology for that risk. Quantifiable risks which are material and mitigated by holding capital are modelled in the Group's internal model, which is used to determine the Group Internal Economic Capital Assessment (GIECA) with robust processes and controls on model changes. The GIECA model and results are subject to independent validation.

### Risk management and control

The Group's control procedures and systems focus on aligning the levels of risk taking with the Group's strategy and can only provide reasonable, not absolute, assurance against material misstatement or loss. The Group's risk policies define the Group's appetite for material risks and set out the risk management and control requirements to limit exposure. These policies also set out the processes to enable the measurement and management of these risks in a consistent and coherent way, including the flows of management information required. Stress and scenario testing is also in place to assess the robustness of capital adequacy and liquidity and the appropriateness of risk limits, as well as to support recovery planning. This includes reverse stress testing which requires the Group to ascertain the point of business model failure and is another tool that helps to identify the key risks and scenarios that may have a material impact

on the Group. The methods and risk management tools employed to mitigate each of the Group's principal risks are detailed in section 3 below.

### Risk monitoring and reporting

The Group's principal risks are highlighted in the management information received by the GRC and the Board, which also includes key exposures against appetite and developments in the Group's principal and emerging risks.

### iii. Risk appetite, limits and triggers

The Group aims to balance the interests of the broad spectrum of its stakeholders (including customers, investors, employees, communities and key business partners) and understands that a well-managed acceptance of risk lies at the heart of its business. The Group generates stakeholder value by selectively taking exposure to risks, mitigated to the extent it is cost-effective to do so, and where these are an outcome of its chosen business activities and strategy. Those risks for which the Group has no tolerance are actively avoided. The Group's systems, procedures and controls are designed to manage risk appropriately, and its approach to resilience and recovery aims to maintain the Group's ability and flexibility to respond in times of stress.

Qualitative and quantitative expressions of risk appetite are defined and operationalised through risk limits, triggers and indicators. The RCS function reviews the appropriateness of these measures at least annually. The Board approves changes to the Group's aggregate risk appetite and the GRC has delegated authority to approve changes to the system of limits, triggers and indicators.

Group risk appetite is defined and monitored in aggregate by the setting of objectives for its capital requirements, liquidity and non-financial risk exposure, covering risks to stakeholders, including those from participating and third-party businesses. Group limits operate within these expressions of risk appetite to constrain material risks, while triggers and indicators provide additional defined points for escalation. The GRC, supported by the RCS function, is responsible for reviewing the risks inherent in the Group's business plan and for providing the Board with a view on the risk/reward trade-offs and the resulting impact to the Group's aggregated position relative to Group risk appetite and limits, including non-financial risk considerations.

- 1. Capital requirements:** Limits on capital requirements aim to ensure that, in both business-as-usual and stressed conditions, the Group maintains adequate capital in excess of internal economic capital requirements and regulatory capital requirements, achieves its desired target credit rating to meet its business objectives, and the need for supervisory intervention is avoided. The two measures in use at the Group level are the GWS and GIECA capital requirements.
- 2. Liquidity:** The objective of the Group's liquidity risk appetite is to help ensure that appropriate cash resources are available to meet financial obligations as they fall due in both business-as-usual and stressed scenarios. This is measured using a liquidity coverage ratio which considers the sources of liquidity against liquidity requirements under stress scenarios.
- 3. Non-financial risks:** The Non-Financial Risk Appetite Framework is in place to identify, measure and assess, manage and control, monitor and report effectively on material non-financial risks across the business. The non-financial risk appetite is framed around the perspectives of its varied stakeholders, accounts for current and expected changes in the external environment, and provides limit and trigger appetite thresholds for non-financial risk categories across the Group's locations. The Group accepts a degree of non-financial risk exposure as an outcome of its chosen business activities and strategy, and aims to manage these risks effectively to maintain its operational resilience and its commitments to customers and all stakeholders and avoid material adverse financial loss or impact to its reputation.

## Risk review continued

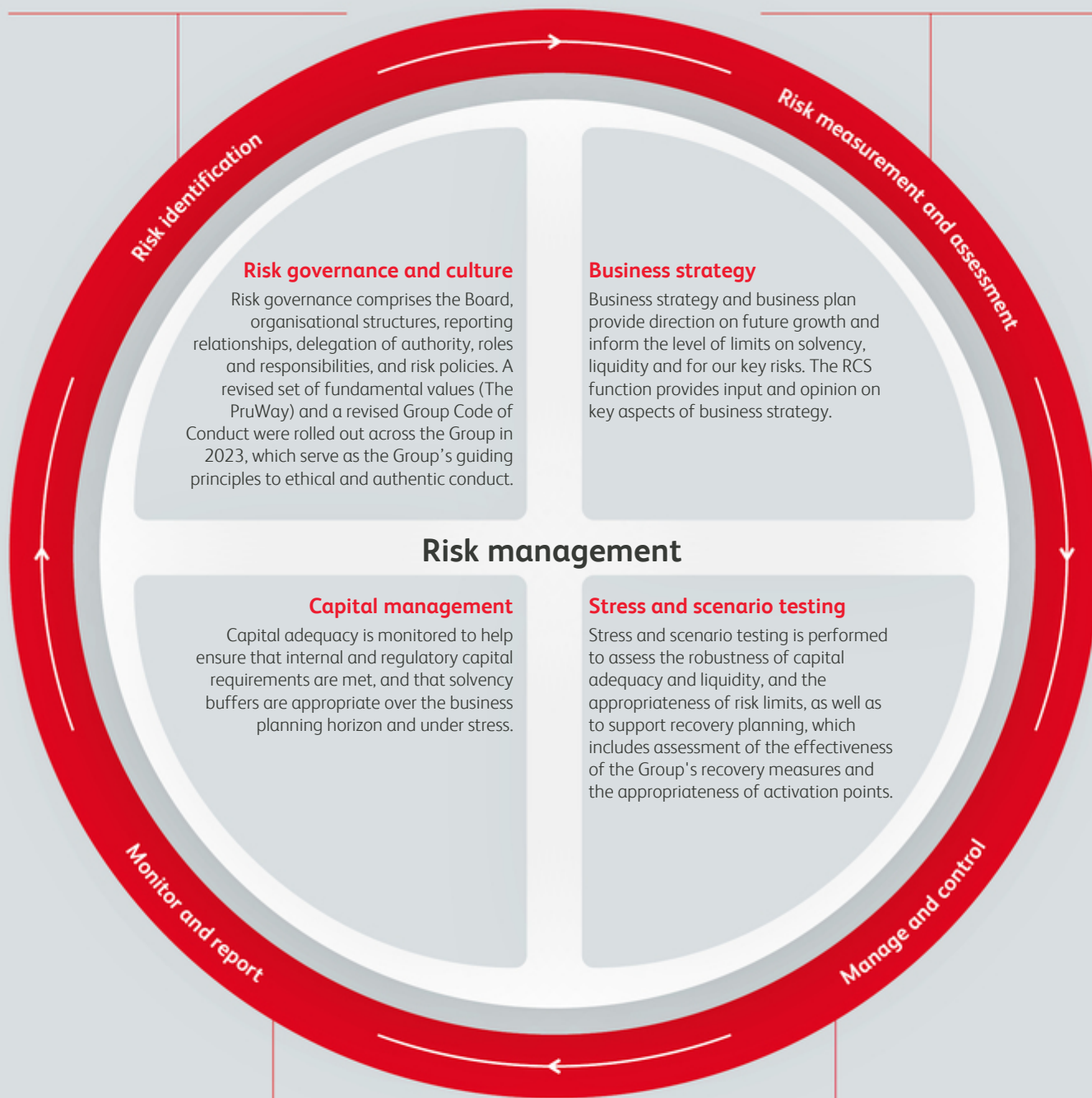
**Risk identification**

Risk identification covers Group-wide:

- (a) Top-down risk identification
- (b) Bottom-up risk identification
- (c) Emerging risk identification

**Risk measurement and assessment**

Risks are assessed in terms of materiality. Material risks which are modelled are included in appropriately validated capital models.

**Monitor and report**

Escalation requirements in the event of a breach are clearly defined. Risk reporting provides regular updates to the Group's Board and Risk Committees on exposures against Board-approved appetite statements and limits. Reporting also covers the Group's principal risks.

**Manage and control**

Risk appetite and limits allow for the controlled growth of the Group's business, in line with business strategy and plan. Processes that support the oversight and control of risks include:

1. The Risk and Control Self-Assessment (RCSA) process
2. The Own Risk and Solvency Assessment (ORSA)
3. Group-approved limits and early warning triggers
4. Large risk approval process
5. Global Counterparty Limit Framework
6. Critical/internal incidents procedures
7. Stress and scenario testing, including reverse stress testing

### 3 The Group's principal risks

The delivery of the Group's strategy in building long-term value for all our stakeholders inevitably requires the acceptance of certain risks. The materialisation of any of these risks within the Group or in its joint ventures, associates or key third-party partners may have a financial impact and may affect the performance of products or services or the fulfillment of commitments to customers and other stakeholders, with an adverse impact on Prudential's brand and reputation.

This section provides a high-level overview of the principal risks faced by the Group including the key tools used to manage and mitigate each risk. A detailed description of these and other risks is presented under the heading 'Risk factors', below.

The Group's 2023 Sustainability Report includes further detail on the sustainability (including ESG and climate-related) risks which contribute to the materiality of the Group's principal risks detailed below.

#### Summary of principal risks

##### Risks to the Group's financial position (including those from the external macroeconomic and geopolitical environment)

The global economic and geopolitical environment may impact the Group directly by affecting trends in financial markets and asset values, as well as driving short-term volatility.

##### Risk type

- Global economic and geopolitical conditions
- Market risks to our investments:
  - Interest rate risk, including asset liability management (ALM)
  - Equity and property investment risk
  - Foreign exchange risk
- Liquidity risk
- Credit risks

##### The Group's sustainability (including ESG and climate-related) risks

These include sustainability risks associated with environmental considerations such as climate change (including physical and transition risks), societal risks arising from diverse stakeholder commitments and expectations and governance-related risks.

##### Risks from the nature of our business and our industry

These include the Group's non-financial risks including operational and transformation risks from significant change activity, information security and data privacy risk, risks associated with the Group's joint ventures and associates, risks related to regulatory compliance, insurance risks, and customer conduct risks assumed by the Group in providing its products.

##### Risk type

- Non-financial risks
  - Operations processes risk
  - Change management risk
  - Third-party and outsourcing risk
  - Model risk
  - Fraud risk
  - Financial crime risk
  - Information security, IT infrastructure and data privacy risks
  - Customer conduct risk
  - Legal and regulatory compliance risk
- Insurance risks
  - Medical claims inflation risk
  - Morbidity risk
  - Persistency risk
- Business concentration risk
- Risk associated with the oversight of the Group's joint ventures and associates

## Risk review continued

## Risk description

## Risk management

### Risks to the Group's financial position (including those from the external macroeconomic and geopolitical environment)

The global economic and geopolitical environment may impact the Group directly by affecting trends in financial markets and asset values, as well as driving short-term volatility.

Risks in this category include the market risks to our investments and the credit quality of our investment portfolio, as well as liquidity risk.

#### Global economic and geopolitical conditions

Prudential operates in a macroeconomic and global financial market environment that continues to present significant uncertainties and potential challenges. For example, while headline inflation has moved down in 2023, core inflation has remained well above central bank targets and central banks may need to maintain tight monetary policies to rein in inflation, which could exert downward pressures on growth. In the major emerging markets, inflation has generally been less severe and monetary policies have been less restrictive. However, this environment of relatively high global interest rates presents a meaningful recession risk and is putting pressure on banks' balance sheets and margins. This could result in a pullback in both credit supply and credit demand and lead to a sharper tightening in global credit conditions. Challenges in the US and EU banking sector increased risk in the US commercial real estate sector. The weak growth and concerns around the Chinese Mainland property sector not only put a toll on the Chinese Mainland economy and place downward pressure on China interest rate, but could also weigh on the broader Asian region and the global economy's vitality going forward. A number of issuers within the Chinese Mainland property sector and the US commercial real estate sector experienced a reduction in financial strength and flexibility of corporate entities in 2023, although the overall impact to the Group's invested credit portfolio was immaterial due to our diversified investment strategy. The serviceability of sovereign debt also posed some concerns in certain economies (particularly the high indebtedness across countries in Africa, such as the sovereign debt restructuring in Ghana).

Geopolitical tensions between Russia and Ukraine, Israel and Gaza, as well as the Chinese Mainland and countries such as the United States and India, continued to contribute to the slow and/or negative global or regional economic growth in 2023. These conflicts may lead to further realignment among blocs or global polarisation and decoupling.

Macroeconomic and geopolitical developments are considered material to the Group and can potentially increase operational and business disruption (including sanctions) and regulatory and financial market risks, and have the potential to directly impact Prudential's sales and distribution networks, as well as its reputation. The potential impacts to the Group are included in sections 1.1 and 1.2 of the Risk factors.

#### Market risks to our investments

(Audited)

The value of Prudential's direct investments is impacted by fluctuations in equity prices, interest rates, credit spreads, foreign exchange rates and property prices. There is also potentially indirect impact through the value of the net equity of its joint ventures and associates. Although inflation remains at decades-level highs in certain global markets, the Group's direct exposure to inflation remains modest. Exposure mainly arises through an increase in medical claims obligations, driven by rising medical prices as well as potential impact on customers from an affordability perspective. Medical inflation risk as well as challenges for insurers linked to affordability and existing challenges in persistency are detailed in the Insurance risks section below.

The Group has appetite for market risk where it arises from profit-generating insurance activities to the extent that it remains part of a balanced portfolio of sources of income for shareholders and is compatible with a robust solvency position. The Group's market risks are managed and mitigated by the following:

- The Group Market Risk Policy;
- The Group Capital and Asset Liability Management (ALM) Committee and Group ALM Policy;
- Changes in asset allocation, bonus revisions, repricing and the use of reinsurance where appropriate;
- The Group Investment Committee and Group Investment Policy;
- Hedging using derivatives, including currency forwards and swaps, bond forwards/futures, interest rate futures and swaps, and equity futures;
- The monitoring and oversight of market risks through the regular reporting of management information;
- Regular deep dive assessments; and
- The Group Critical Incident Procedure (GCIP), which defines specific governance to be invoked in the event of a critical incident, such as a significant market, liquidity or credit-related event. This includes, where necessary, the convening of a Critical Incident Group (CIG) to oversee, coordinate, and where appropriate, direct activities during a critical incident.

## Risk description

## Risk management

### Market risks to our investments continued

#### Interest rate risk, including asset liability management (ALM)

Interest rate risk is driven by the impact of the valuation of Prudential's assets (particularly government and corporate bonds) and liabilities, which are dependent on market interest rates.

High interest rates, driven by sustained inflationary pressures, may impact the valuation of fixed income investments and reduce fee income. The Group's risk exposure to rising interest rates also arises from the potential impact to the present value of future fees for unit-linked businesses, such as in Indonesia and Malaysia, as well as the impact to the present value of the future profits for accident and health products, such as in Hong Kong. Exposure to higher interest rates also arises from the potential impact to the value of fixed income assets in the shareholder funds.

The Group's risk exposure to lower/decreased interest rates arises from the guarantees of some non-unit-linked products with a savings component, including the Hong Kong, Singapore and CPL's participating and non-participating businesses. This exposure results from the potential for an asset and liability mismatch, where long-dated liabilities and guarantees are backed by short-dated assets.

The Group Capital and ALM Committee is a management committee supporting the identification, assessment and management of key financial risks to the achievement of the Group's business objectives. The Committee also oversees ALM, solvency and liquidity risks of the local businesses as well as the declaration and management of non-guaranteed benefits for participating and universal life lines of business. Local business units are responsible for the management of their own asset and liability positions, with appropriate governance in place. The objective of the local business unit ALM process is to meet policyholder liabilities with the returns generated from the investment assets held, while maintaining the financial strength of capital and solvency positions. The ALM strategy adopted by the local business units considers the liability profile and related assumptions of in-force business and new products to appropriately manage investment risk within ALM risk appetite, under different scenarios in accordance with policyholders' reasonable expectations, and economic and local regulatory requirements. Factors such as the availability of matching assets, diversification, currency and duration are considered as appropriate. The assumptions and methodology used in the measurement of assets and liabilities for ALM purposes conform with local solvency regulations. Assessments are carried out on an economic basis which conforms to the Group's internal economic capital methodology.

The Group's appetite for interest rate risk requires that assets and liabilities should be tightly matched for exposures where assets or derivatives exist that can cover these exposures. Interest rate risk is accepted where this cannot be hedged, provided that this arises from profitable products and to the extent that such interest rate risk exposure remains part of a balanced exposure to risks and is compatible with a robust solvency position. When asset and liability duration mismatch is not eliminated, it is monitored and managed through local risk and asset liability management committees and Group risk limits consistent with the Group's appetite for interest rate risk.

#### Equity and property investment risk

The shareholder exposure to equity price movements arises from various sources, including from unit-linked products where fee income is linked to the market value of funds under management. Exposure also arises from participating businesses through potential fluctuations in the value of future shareholders' profits and where bonuses declared are based broadly on historical and current rates of return from the businesses' investment portfolios, which include equities.

The material exposures to equity risk in the Group's businesses include CPL's exposure to equity risk through investments in equity assets for most of its products, including participating and non-participating savings products and protection and unit-linked products. The Hong Kong business and, to a lesser extent, the Singapore business contribute to the Group's equity risk exposure due to the equity assets backing participating products. The Indonesia and Malaysia businesses are exposed to equity risk through their unit-linked products and, in the case of Malaysia, exposure also arises from participating and unit-linked business.

The Group has limited acceptance for exposures to equity risk from non-participating products if it is not rewarded for taking the equity risk. The Group accepts equity exposure that arises from future fees (including shareholder transfers from the participating businesses) but limits its exposure to policyholder guarantees by hedging against equity movements and guarantees where it is considered economically optimal to do so.

Where equity risk is accepted, it is explicitly defined by the strategic asset allocation, as well as monitored and managed through local risk and ALM committees. Overall exposure to equity risk from the participating businesses is also managed through Group risk limits consistent with the Group's appetite for equity risk.

## Risk review continued

Risk description	Risk management
<b>Market risks to our investments continued</b>	
<p><b>Foreign exchange risk</b></p> <p>The geographical diversity of Prudential's businesses means that it is exposed to the risk of foreign exchange rate fluctuations. Some entities within the Group write policies, invest in assets or enter into other transactions in local currencies or currencies not linked to the Group's reporting/functional currency, the US dollar. Although this limits the effect of exchange rate movements on local operating results, it can lead to fluctuations in the Group's US dollar-reported financial statements. This risk is further detailed in section 1.6 of the Risk factors.</p>	<p>The Group accepts the currency risk that emerges from profits retained locally to support the growth of the Group's business and the translation risks from capital being held in the local currency of the business to meet local regulatory and market requirements. However, in cases where a surplus arising in an overseas operation supports Group capital or shareholders' interest (ie remittances), this exposure is hedged if it is economically optimal to do so. The Group does not accept significant shareholder exposures to foreign exchange risks in currencies outside the local territory.</p> <p>Foreign exchange risk is managed by the Group Capital and ALM Committee through the implementation of asset allocation on funds which captures the exposure to non-local-denominated assets.</p>
<b>Liquidity risk</b>	
<p>(Audited)</p> <p>Prudential's liquidity risk arises from the need to have sufficient liquid assets to meet policyholder and third-party payments as they fall due, considered under both business-as-usual and stressed conditions. It includes the risk arising from funds composed of illiquid assets and results from a mismatch between the liquidity profile of assets and liabilities. Liquidity risk may impact market conditions and valuation of assets in a more uncertain way than other risks like interest rate or credit risk. It may arise, for example, where external capital is unavailable at sustainable cost, where derivatives transactions require a sudden significant need of liquid assets or cash to post as collateral to meet derivatives margin requirements, or where redemption requests are made against funds managed for external clients (both retail and institutional). Liquidity risk is considered material at the level of the Group.</p>	<p>The Group has no appetite for any business to have insufficient resources to cover its outgoing cash flows, or for the Group as a whole to not meet cash flow requirements from its debt obligations under any plausible scenario. The Group has significant internal sources of liquidity sufficient to meet its expected cash requirements for at least 12 months from the date the financial statements are approved, without having to resort to external sources of funding. The Group has a total of \$1.6 billion of undrawn committed facilities that can be made use of, expiring in 2029. Access to further liquidity is available through the debt capital markets and the Group's extensive commercial paper programme. Prudential has maintained a consistent presence as an issuer in the market for the past decade.</p> <p>A number of risk management tools are used to manage and mitigate liquidity risk, including the following:</p> <ul style="list-style-type: none"> <li>– The Group's Liquidity Risk Policy;</li> <li>– Regular assessment and reporting by the Group and business units of liquidity coverage ratios, which are calculated under both base case and stressed scenarios;</li> <li>– The Group's Liquidity Risk Management Plan;</li> <li>– The Group's Collateral Management Framework;</li> <li>– The Group's contingency plans and identified sources of liquidity;</li> <li>– The Group's ability to access the money and debt capital markets; and</li> <li>– The Group's access to external committed credit facilities.</li> </ul>

## Risk description

## Risk management

### Credit risk

(Audited)

Credit risk is the potential for loss resulting from a borrower's failure to meet its contractual debt obligation(s). Counterparty risk, a type of credit risk, is the probability that a counterparty defaults on its contractual obligation(s) causing the other counterparty to suffer a loss. These risks arise from the Group's investments in bonds, reinsurance arrangements, derivative contracts with third parties, and its cash deposits with banks. Credit spread risk, another type of credit risk, arises when the interest rate/return on a loan or bond is disproportionately low compared with another investment with a lower risk of default. Invested credit and counterparty risks are considered a material risk for the Group's business units.

The total debt securities at 31 December 2023 held by the Group's operations were \$83.1 billion (31 December 2022: \$77.0 billion). The majority (83 per cent, 31 December 2022: 84 per cent) of the portfolio are investments either held in unit-linked funds or that support insurance products where policyholders participate in the returns of a specified pool of investments<sup>1</sup>. The gains or losses on these investments will largely be offset by movements in policyholder liabilities<sup>2</sup>. The remaining 17 per cent (31 December 2022: 16 per cent) of the debt portfolio (the 'shareholder debt portfolio') are investments where gains and losses broadly impact the income statement, albeit short-term market fluctuations are recorded outside of adjusted operating profit.

- Group sovereign debt: Prudential invests in bonds issued by national governments. This sovereign debt holding within the shareholder debt portfolio represented 55 per cent or \$7.8 billion<sup>3</sup> of the total shareholder debt portfolio as at 31 December 2023 (31 December 2022: 41 per cent or \$4.9 billion). The particular risks associated with holding sovereign debt are detailed further in the disclosures in the Risk factors. The total exposures held by the Group in sovereign debt securities at 31 December 2023 are given in note C1 of the Group's IFRS financial statements.
- Corporate debt portfolio: In the shareholder debt portfolio, corporate debt exposures totalled \$5.8 billion of which \$5.4 billion or 94 per cent were investment grade rated (31 December 2022: \$6.6 billion of which \$6.1 billion or 93 per cent were investment grade rated).
- **Bank debt exposure and counterparty credit risk:** The banking sector represents a material concentration in the Group's corporate debt portfolio which largely reflects the composition of the fixed income markets across the regions in which Prudential is invested. As such, exposure to banks is a key part of its core investments, considered to be a material risk for the Group, as well as being important for the hedging and other activities undertaken to manage its various financial risks.

At 31 December 2023:

- 94 per cent of the Group's shareholder portfolio (excluding all government and government-related debt) is investment grade rated<sup>4</sup>. In particular, 59 per cent of the portfolio is rated<sup>4</sup> A- and above (or equivalent); and
- The Group's shareholder portfolio is well diversified: no individual sector<sup>5</sup> makes up more than 13 per cent of the total portfolio (excluding the financial and sovereign sectors).

The Group's holdings across its life portfolios are mostly in local currency and with a largely domestic investor base. These portfolios are generally positioned towards high-quality names, including those with either government or considerable parent company balance sheet support. Areas which the Group is actively monitoring include ongoing developments in the global banking sector, effects of the global economic slowdown on the invested assets, the impacts of the tightening of monetary policy in the Group's key markets, higher refinancing costs, heightened geopolitical tension and protectionism, the ongoing downsizing of the Chinese Mainland property sector and more widely across the Chinese Mainland economy, as well as high indebtedness in African countries. The impacts of these closely monitored trends include potential for deterioration in the credit quality of the Group's invested credit exposures, particularly due to rising funding costs and overall credit risks, and the extent of downward pressure on the fair value of the Group's portfolios. The Group's portfolio is generally well diversified in relation to individual counterparties, although counterparty concentration is monitored, particularly in local markets where depth (and therefore the liquidity of such investments) may be low. The Group has appetite to accept credit risk to the extent that it remains part of a balanced portfolio of sources of income for shareholders and is compatible with a robust solvency position. This risk is further detailed in sections 1.4 and 1.5 of the Risk factors.

The Group actively reviews its investment portfolio to improve the robustness and resilience of the solvency position. A number of risk management tools are used to manage and mitigate credit and counterparty credit risk, including the following:

- The Group Credit Risk Policy and the Group Dealing Controls Policy;
- The Global Counterparty Limit Framework and concentration limits on large names;
- Collateral arrangements for derivative, secured lending reverse repurchase and reinsurance transactions which aim to provide a high level of credit protection; and
- The Group Executive Risk Committee and Group Investment Committee's oversight of credit and counterparty credit risk and sector and/or name-specific reviews.

Exposure to the banking sector is considered a material risk for the Group. Derivative and reinsurance counterparty credit risk exposure is managed using an array of risk management tools, including a comprehensive system of limits. Prudential manages the level of its counterparty credit risk by reducing its exposure or using additional collateral arrangements where appropriate.



## Risk review continued

## Risk description

## Risk management

**The Group's sustainability (including ESG and climate-related) risks**

These include sustainability risks associated with environmental considerations such as climate change (including physical and transition risks), societal risks arising from diverse stakeholder commitments and expectations and governance-related risks.

Material and emerging risks associated with key sustainability themes may undermine the long-term success of a business by adversely impacting its reputation and brand, and ability to attract and retain customers, investors, employees and distribution and other business partners, and therefore the results of its operations and delivery of its strategy and long-term financial success. The Group's sustainability strategy is centered on three key pillars (providing simple and accessible health and financial protection, investing responsibly and creating a sustainable business), each of which increases the expectations of the Group's stakeholders with regards to the Group's potential external environmental and social impact. Sustainability risks arise from the activities that support implementation of the Group's strategy, which include developing sustainable and inclusive offerings, continuing to decarbonise the Group's investment portfolio in a science-informed approach to facilitate becoming a net zero asset owner by 2050 whilst financing a just and inclusive transition, and advancing the diversity, equity and inclusion and belonging strategy to empower existing employees.

Potential regulatory compliance and litigation risks exist globally and across Asia, as sustainability-related topics remain high on the agenda of both local regulators and international supervisory bodies, including the International Association of Insurance Supervisors (IAIS) and the International Sustainability Standards Board (ISSB), which published its inaugural sustainability and climate-related disclosure requirements in June 2023. Delivery of the Group's Sustainability Strategy, including the decarbonisation commitments and the development of sustainable and inclusive offerings, heightens the risk of accusations of misleading or unsubstantiated representations to the extent of the environmental or societal impact of the Group's activities and the sustainability features of new products (eg greenwashing), which subsequently increases the risk of potential litigation or reputational damage. Further details of the Group's sustainability-related risks and regulations are included in sections 2.1 and 4.1 of the Risk factors.

As custodians of stakeholder value for the long term, the Group seeks to manage sustainability risks and their potential impact on its business and stakeholders through transparent and consistent implementation of its strategy in its markets and across operational, underwriting and investment activities. It is enabled by strong internal governance, sound business practices and a responsible investment approach, with sustainability-related considerations integrated into investment processes and decisions and the performance of fiduciary and stewardship duties, including via voting and active engagement decisions with respect to investee companies, as both an asset owner and an asset manager. Climate risk, the Group's reporting against the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), and progress on the Group's external climate-related commitments, remain a priority focus for the GRC for 2024. Further information on the Group's sustainability governance and strategy, as well as the management of material sustainability themes, is included in the Group's 2023 Sustainability Report.

The Group participates in networks, industry forums and working groups, such as the Net Zero Asset Owner Alliance (NZAOA), Principles for Responsible Investment (PRI) and CRO Forum, to further develop understanding and support collaborative action in relation to sustainability risks and promoting a just and inclusive transition. The Group also actively engages with, and responds to, discussions, consultations and information-gathering exercises with local regulators, international supervisory bodies and global industry standard setters.

The Group Risk Framework continues to be critically evaluated and updated where required to ensure both sustainability-related considerations and risks to the Group, including those arising from stakeholder expectations of the external impact of the Group's activities, are appropriately captured. Risk management and mitigation of sustainability risks are embedded within the Group Risk Framework and risk processes, including:

- Consideration within the emerging risk identification and evaluation processes that emerging sustainability themes and the associated risks can potentially quickly change from immaterial to material (dynamic-materiality);
- Reflection in the risk taxonomy that the Group can be both impacted by sustainability issues as well as having an impact on these in the external world ('double materiality');
- The addition of 'social and environmental responsibility' as a strategic risk within the risk taxonomy to consider the potential risks arising from the external impact of the Group's activities;
- Workshops and function-wide training on specific risk themes, including sustainability risk principles, greenwashing risk and the risks associated with delivery of the Group's external responsible investment commitments;
- Definition of appropriate (and longer) time horizons with respect to climate risk management, and the requirement to consider time horizons where required in risk-based decision-making; and
- Deep dives into emerging and increasingly material sustainability themes, including climate-related risks, and development of Board-level and broader Group-wide training.

**Risk description****Risk management****Risks from the nature of our business and our industry**

These include the Group's non-financial risks including operations processes, change management, information security, IT infrastructure and data privacy, as well as customer conduct, legal and regulatory compliance risks. Insurance risks and business concentration risks are also assumed by the Group in providing its products. Furthermore, there are risks associated with the oversight of the Group's joint ventures and associates stemming from our operation in certain markets.

**Non-financial risks**

The complexity of Prudential, its activities and the extent of transformation in progress creates a challenging operating environment and exposure to a variety of non-financial risks which are considered to be material at a Group level.

The Group's non-financial risks, which are not exhaustive and discussed further in section 3 of the Risk factors, are outlined below.

Alongside the Non-Financial Risk Appetite Framework, other risk policies and standards are in place that individually engage with specific non-financial risks, including operations processes, change management, third-party and outsourcing management, business continuity, fraud, financial crime as well as information security, IT infrastructure and data privacy. These policies and standards include subject matter expert-led processes that are designed to identify, assess, manage and control non-financial risks, including:

- Reviews of key non-financial risks and challenges within Group and business units' business plans during the annual planning cycle, to support business decisions;
- Corporate insurance programmes to limit the financial impact of operational risks;
- Oversight of risk management during the transformation life cycle, project prioritisation and the risks, interdependencies and possible conflicts arising from a large portfolio of transformation activities;
- Screening and transaction monitoring systems for financial crime and a programme of compliance control monitoring reviews and regular risk assessments;
- Internal and external review of cyber security capability and defences;
- Regular updating and risk-based testing of disaster recovery plans and the Critical Incident Procedure process;
- Established processes to deliver the highest quality of service to fulfil customers' needs and expectations; and
- Active engagement in and monitoring of regulatory developments.

**Operations processes risk**

Operations processes risk is the risk of failure to adequately or accurately process different types of operational transactions, including customer servicing and asset and investment management operations. Due to human error, among other reasons, operations and process control incidents do occur from time to time and no system or process can entirely prevent occurrence.

The Group aims to manage the risk effectively by maintaining operational resilience and honouring commitments to customers and stakeholders, whilst avoiding material adverse financial loss or impact on its reputation. Further detail on the risks to the Group arising from system issues or control gaps is included in sections 3.1 and 3.3 in the Risk factors.

**Change management risk**

Change management risk remains a material risk for Prudential, with a number of significant change programmes under way which, if not delivered and executed effectively with adequate and capable resources to defined timelines, scope and cost, may negatively impact its operational capability, control environment, employees, reputation and ability to deliver its strategy and maintain market competitiveness. The current portfolio of transformation and significant change programmes includes (i) the implementation and embedding of large-scale regulatory/industry changes; (ii) the expansion of the Group's digital capabilities and use of technology, platforms and analytics; and (iii) improvement of business efficiencies through operating model changes, including those relating to the Group's central, asset management and investment oversight functions. Further detail on the risks to the Group associated with large-scale transformation and complex strategic initiatives is included in section 3.1 of the Risk factors.

The Group aims to ensure that, for both transformation and strategic initiatives, strong programme governance is in place with embedded risk expertise to achieve ongoing and nimble risk oversight, with regular risk monitoring and reporting to risk committees. The Group's Transformation Risk Framework is in place alongside the Group's existing risk policies and frameworks with the aim to ensure appropriate governance and controls are in place to mitigate these risks. The Group also enhanced its governance framework in 2023 to better oversee the implementation and risk management of digital platforms. This includes the establishment of digital governance forums that oversee digital transformation from various dimensions such as customer-centricity, strategic, financial, operational and risk management. In addition, Prudential is continuously enhancing strategic capabilities through internal talent development and talent acquisition. Developing an engaged workforce that provides adequate resources for our people to manage change, connect, grow and succeed is one of the priorities for the company.

## Risk review continued

Risk description	Risk management
<b>Non-financial risks continued</b>	
<p><b>Third-party and outsourcing management risk</b></p> <p>The Group's outsourcing and third-party relationships require distinct oversight and risk management processes. The Group has a number of important third-party relationships, with both market counterparties and outsourcing partners, including distribution, technology and ecosystem providers. The Group maintains material strategic partnerships and bancassurance arrangements, which create a reliance on the operational resilience and performance of outsourcing and business partners. This risk is explored in more depth in section 3.3 of the Risk factors.</p>	<p>The Group's requirements for the management of material outsourcing arrangements have been incorporated in its Group Third-Party Supply and Outsourcing Policy, aligned to the requirements of the HKIA's GWS Framework, and which outlines the governance in place in respect of material outsourcing and third-party arrangements and the Group's monitoring and risk assessment framework. This aims to ensure that appropriate contract performance and risk mitigation measures are in place over these arrangements. In addition, the Group Third-Party Risk Oversight Framework is in place to set out the Group's third-party risk management and oversight standards that guide the Group senior management and RCS function to oversee, challenge and manage the Group's third-party risk profile in a consistent and coherent way.</p>
<p><b>Model risk</b></p> <p>Model risk is the risk of adverse financial, regulatory, operational, or reputational impact, or misinformed business and strategic decision-making resulting from reliance on a model or user-developed application (UDA) that is inaccurate, incorrect or misused. The Group utilises various tools and they form an integral part of operational functions including the calculation of regulatory or internal capital requirements, the valuation of assets and liabilities, determining hedging requirements, assessing projects and strategic transactions, and acquiring new business via digital platforms.</p> <p>Technological developments, in particular in the field of artificial intelligence (AI) and the increased use of generative AI, pose new considerations on model risk oversight provided under the Group Risk Framework.</p>	<p>The Group has no appetite for model or UDA related incidents leading to regulatory breaches. There is limited appetite for failures to develop, implement and monitor appropriate risk mitigation measures to manage model and UDA risk. The Group's model and UDA risk is managed and mitigated via the Model and UDA Risk Framework which applies a risk-based approach to tools (including those under development) with the aim to ensure a proportionate level of risk management. The framework requirements include:</p> <ul style="list-style-type: none"> <li>– Set of risk oversight, management and governance requirements;</li> <li>– Regular risk assessment requirements of all tools taking into account potential impact on various stakeholders, including policyholders; and</li> <li>– Regular independent validation (including limitations, known errors and approximations) of all Group critical tools.</li> </ul> <p>An oversight forum for the use of AI and ensuring compliance with the key ethical principles is also in place and adopted by the Group with the aim to ensure the safe use of AI.</p>
<p><b>Fraud risk</b></p> <p>Prudential is exposed to fraud risk, including fraudulent insurance claims, transactions, or procurement of services, that are made against or through the business.</p>	<p>The Group's Counter Fraud Policy and analytics-led tooling are in place to set out the required standards to enhance fraud detection, prevention and investigation activities with the objective to protect resources to support sustainable business growth. The policy also sets out the framework to tackle fraud with the goals of safeguarding customers, protecting local businesses and the Group's reputation, and providing assurance that fraud risk is managed within appetite.</p> <p>The Group undertakes strategic activities to monitor and evaluate the evolving fraud risk landscape, mitigate the likelihood of fraud occurring and increase the rate of detection. The Group has a mature confidential reporting system in place, through which employees and other stakeholders can report concerns relating to potential misconduct. The process and results of this system are overseen by the Group Audit Committee.</p>

**Risk description****Risk management****Non-financial risks continued****Financial crime risk**

As with all financial services firms, Prudential is exposed to risks relating to money laundering (the risk that the products or services of the Group are used by customers or other third parties to transfer or conceal the proceeds of crime); sanctions compliance breaches (the risk that the Group undertakes business with individuals and entities on the lists of the main sanctions regimes); and bribery and corruption (the risk that employees or associated persons seek to influence the behaviour of others to obtain an unfair advantage or receive improper benefits). Further detail on the risks to the Group associated with operating in high-risk markets is included in section 3.6 of the Risk factors.

The Group-wide policies on anti-money laundering, sanctions and anti-bribery and corruption risks reflect the requirements applicable to all staff in all offices and businesses. Screening and transaction monitoring systems are in place across the Group.

The Group has continued to strengthen and enhance its financial crime risk management capability through investment in advanced analytics and AI tools. Proactive detective capabilities are being implemented across the Group and delivered through a centralised monitoring hub to further strengthen oversight of financial crime risks in the areas of procurement and third-party management. Risk assessments are performed annually for businesses and offices across all locations. Due diligence reviews and assessments against the Group's financial crime policies are performed as part of the Group's business acquisition process.

**Information security, IT infrastructure and data privacy risks**

Risks related to malicious attacks on Prudential systems, service disruption, exfiltration of data, loss of data integrity and the impact on the privacy of our customer data remain prevalent, particularly as the accessibility of attacking tools available to potential adversaries increases. Regulatory developments in cyber security and data protection are progressing worldwide and may increase the complexity of requirements and obligations required for companies. Further detail on the risks to the Group associated with operating in high-risk markets is included in sections 3.4 and 3.5 of the Risk factors.

The Group adheres to data minimisation and 'privacy-by-design' principles, where data is only collected and used for its intended purpose and is not retained longer than necessary. The handling of customers' data is governed by specific policies and frameworks, such as the Group Information Security Policy, the Group Privacy Policy and the Group Data Policy, to ensure compliance with all applicable laws and regulations, and the ethical use of customer data.

Despite the rise in ransomware activity due to the availability of ransomware exploit toolkits and Ransomware-as-a-Service (RaaS) for threat actors, the Group has a number of defences in place to protect its systems from cyber security attacks. Prudential has adopted a holistic risk management approach which is designed to prevent and disrupt potential attacks against the Group as well as third-party partner systems and to manage the recovery process should an attack take place. Other defences include, but are not limited to: (i) distributed denial of services (DDoS) protection for the Group's websites via web application firewall services; (ii) AI-based endpoint security software; (iii) continuous security monitoring; (iv) network-based intrusion detection; and (v) employee training and awareness campaigns to raise understanding of attacks utilising email phishing techniques. Cyber insurance coverage is in place to provide some protection against potential financial losses, and the cyber attack simulation exercises have been carried out to enhance preparedness. The Group has also established various processes to ensure the effectiveness of information security and privacy mechanisms deployed, which include setting up a dedicated ethical hacking team to perform testing on the Group's systems to identify potential vulnerabilities, engaging external consultants to perform penetration testing on our systems, and engaging external consultants to perform independent assessments on both security operations centre and the information and privacy function as a whole to further improve the efficiency of the functions. A private Bug Bounty Programme has also been established to provide a mechanism for invited external security practitioners to report security issues and vulnerabilities. This is further supported by a Vulnerability Disclosure Programme that allows independent security researchers to report security issues and vulnerabilities via the Prudential websites.

The Group has subscribed to services from independent security consultants to continuously monitor our external security posture. As the Group continues to develop and expand digital services and emerging products, its reliance on third-party service providers and business partners who specialise in niche capabilities is also increasing. In 2023, among many companies around the world, the Group's businesses in Malaysia were affected by the global MOVEit data-theft attack, where a zero-day vulnerability was exploited at MOVEit, a software solution providing secured file transfer services, with infringements to data security, integrity and privacy. As a result, this incident directly impacted the Group's reputation and compliance with

## Risk review continued

## Risk description

## Risk management

**Non-financial risks continued****Information security, IT infrastructure and data privacy risks continued**

regulatory and data privacy requirements. Following the threats, various actions have been taken, including isolating the affected server, a thorough investigation, and customer and authority notifications. Potential enhancements have been identified from the review and specific actions have been implemented to address these. Apart from this event, the Group did not experience any cyber security and data breaches with a material impact on its business strategy, operations or financial condition in 2023.

In addition, the Group is proactively monitoring possible advanced social engineering attacks related to corporate activities, for example, deepfakes, the use of AI-generated synthetic medium to imitate senior executives to conduct fraudulent activities. The Group is taking steps to mitigate such attacks, pragmatic measures include raising regular cyber security awareness, implementing robust preventative and detective controls, and having a well-defined incident response plan as part of a wider cyber resilience strategy.

The Group Infrastructure Policy was revamped in 2023 to ensure comprehensive governance and assurance of our technology components. A new enterprise operating model was designed based on an innovation-led technology operations structure, mature internal capabilities, and an aligned outsourcing model. Furthermore, businesses remained focused on digital ecosystems for strategic growth in 2023. A resiliency enhancement programme has been put in place to enhance capabilities in managing disruptions or failures on system platforms serving our customers. This includes implementing robust measures such as identifying and removing single-points-of-failure (SPOF) infrastructure, disaster recovery plans, and backup systems.

Alongside continuous technology development, the Group's Technology Risk Management function is primarily responsible for technology risk identification, assessment, mitigation, monitoring and reporting across different technology domains to provide advisory, assurance and operations support for holistic technology risk management including information security and privacy. Specifically, key risk indicators have been enhanced to cover key technology risk areas, annual risk assessment is conducted to identify specific risks, priorities and focus areas, and deep-dive reviews are conducted on different technology domains to provide assurance of controls to manage technology risks. In addition, the Group Technology Risk Committee is a sub-committee of the Group Executive Risk Committee, which oversees the effectiveness of technology risk management including information security and privacy across the Group. Work was undertaken in 2023 to further enhance the maturity of the technology risk operating model which includes organisational structure improvements, policy enhancements and enriched key risk indicators to provide a quantifiable overlay to overseeing and managing technology risks. The Group's internal audits also regularly include cyber security as part of its audit coverage. Cyber and privacy risks are reported regularly to the GRC by the Group Chief Technology Risk Officer. In addition, the GRC and Group Audit Committee receive more detailed briefings at least twice annually from the Group Chief Technology Officer. Both the Group Chief Technology Risk Officer and Group Chief Technology Officer are experienced professionals with more than 20 years of experience in information technology and cyber security. Further, the Group Executive Committee (GEC) participates in annual cyber tabletop exercises and risk workshops to ensure members are well equipped to respond to a cyber or information security incident and fully understand the latest threats and regulatory expectations.

## Risk description

## Risk management

### Non-financial risks continued

#### Customer conduct risk

Prudential's conduct of business, especially in the design and distribution of its products and the servicing of customers, is crucial in ensuring that the Group's commitment to meeting its customers' needs and expectations is met. The Group's Customer Conduct Risk Framework reflects management's focus on customer outcomes.

Factors that may increase conduct risk can be found throughout the product life cycle, from the complexity of the Group's products and services to its diverse distribution channels, which include its agency workforce, virtual face-to-face sales, and sales via online digital platforms.

The Group has developed a Group Customer Conduct Risk Policy which sets out five customer conduct standards that the business is expected to meet, being:

- Treat customers fairly, honestly and with integrity;
- Provide and promote products and services that meet customer needs, are clearly explained and that deliver real value;
- Manage customer information appropriately, and maintain the confidentiality of customer information;
- Provide and promote high standards of customer service; and
- Act fairly and promptly to address customer complaints and any errors found.

Conduct risk is managed via a range of controls that are assessed through the Group's Conduct Risk Assessment Framework, reviewed within its monitoring programmes, and overseen within reporting to its boards and committees.

Management of the Group's conduct risk is key to the Group's strategy. Prudential's conduct risks are managed and mitigated using the following, among other tools:

- The Group's Code of Conduct and conduct standards, product underwriting and other related risk policies, and supporting controls including the Group's fraud risk control programme;
- A culture that supports the fair treatment of the customer, incentivises the right behaviour through proper remuneration structures, and provides a safe environment to report conduct risk-related issues via the Group's internal processes and the Speak Out programme;
- Distribution controls, including monitoring programmes relevant to the type of business (insurance or asset management), distribution channel (agency, bancassurance or digital) and ecosystem, to help ensure sales are conducted in a manner that considers the fair treatment of customers within digital environments;
- Quality of sales processes, services and training, and use of other initiatives such as special requirements for vulnerable customers, to improve customer outcomes;
- Appropriate claims management and complaint handling practices; and
- Regular deep dive assessments on, and monitoring of, conduct risks and periodic conduct risk assessments.

#### Legal and regulatory compliance risk

Prudential operates in highly regulated markets and under the ever-evolving requirements and expectations of diverse and dynamic regulatory, legal and tax regimes which may impact its business or the way the business is conducted. The complexity of legal and regulatory (including sanctions) compliance continues to evolve and increase, representing a challenge for international businesses. Compliance with the Group's legal or regulatory obligations (including in respect of international sanctions) in one jurisdiction may conflict with the law or policy objectives of another jurisdiction or may be seen as supporting the law or policy objectives of one jurisdiction over another, creating additional legal, regulatory compliance and reputational risks. These risks may be increased where the scope of regulatory requirements and obligations are uncertain, and where specific cases applicable to the Group are complex. In certain jurisdictions in which Prudential operates there are several ongoing policy initiatives and regulatory developments which will impact the way Prudential is supervised. Further information on specific areas of regulatory and supervisory focus and changes are included in section 4 of the Risk factors.

Regulatory developments are monitored by the Group at a national and global level and these considerations form part of the Group's ongoing engagement with government policy teams, industry groups and regulators.

Risk management and mitigation of regulatory risk at Prudential includes a comprehensive set of compliance and financial crime operating arrangements, such as policies, procedures, reporting protocols, risk management measures, disclosures and training, to ensure ongoing compliance with regulatory and legal obligations. Appropriate controls or tools have been systematically integrated into the daily operations of Prudential:

- Close monitoring and assessment of our business controls and regulatory landscape, with explicit compliance consideration of risk themes in strategic decisions and cross-border activities including payments;
- Ongoing engagement with national regulators, government policy teams and international standard setters; and
- Compliance oversight to ensure adherence to new regulatory developments, including those associated with greenwashing risk.

## Risk review continued

Risk description	Risk management
<p><b>Insurance risks</b></p> <p>(Audited)</p> <p>Insurance risks make up a significant proportion of Prudential's overall risk exposure. The profitability of the Group's businesses depends on a mix of factors including levels of, and trends in, mortality (policyholders dying), morbidity (policyholders becoming ill or suffering an accident) and policyholder behaviour (variability in how customers interact with their policies, including utilisation of withdrawals, take-up of options and guarantees and persistency, ie lapsing/surrendering of policies), and increases in the costs of claims over time (claim inflation). The risks associated with adverse experience relative to assumptions associated with product performance and customer behavior are detailed in section 3.7 of the Risk factors. The Group has appetite for retaining insurance risks in the areas where it believes it has expertise and operational controls to manage the risk and where it judges it to be more value-creating to do so rather than transferring the risk, and only to the extent that these risks remain part of a balanced portfolio of sources of income for shareholders and are compatible with a robust solvency position.</p> <p>Inflationary and other economic pressures have also impacted morbidity experience in several markets. Elevated interest rates may lead customers to lapse in preference for alternate saving options that offer higher levels of guarantees. A high-inflation environment, and the broader economic effects of recessionary concerns, may also increase lapses, surrenders and fraud, as well as heighten premium affordability challenges.</p> <p>The principal drivers of the Group's insurance risk vary across its business units. In Hong Kong, Singapore, Indonesia and Malaysia, a significant volume of health and protection business is written, and the most significant insurance risks are medical claims inflation risk, morbidity risk and persistency risk.</p>	<p>Insurance risks are managed and mitigated using the following, among other methods:</p> <ul style="list-style-type: none"> <li>- The Group's Insurance Policy;</li> <li>- The Group's Product and Underwriting Risk Policy, which sets out the required standards for effective product and underwriting risk management and approvals for new, or changes to existing, products (including the role of the Group), and the processes to enable the measurement of underwriting risk. The policy also describes how the Group's Customer Conduct Risk Policy is met in relation to new product approvals and current and legacy products;</li> <li>- The Group's Counter Fraud Policy (see the 'Fraud risk' section above);</li> <li>- Using persistency, morbidity and longevity assumptions that reflect recent experience and expectation of future trends, and the use of industry data and expert judgement where appropriate;</li> <li>- Using reinsurance to mitigate mortality and morbidity risks;</li> <li>- Ensuring appropriate medical underwriting when policies are issued and appropriate claims management practices when claims are received in order to mitigate morbidity risk;</li> <li>- Maintaining the quality of sales processes and training, and using initiatives to increase customer retention in order to mitigate persistency risk;</li> <li>- The use of mystery shopping to identify opportunities for improvement in sales processes and training; and</li> <li>- Using product repricing and other claims management initiatives in order to mitigate morbidity and medical claims inflation risk.</li> </ul>
<p><b>Medical claims inflation risk</b></p> <p>A key assumption in these markets is the rate of medical claims inflation, which is often in excess of general price inflation. The cost of medical treatment could increase more than expected, resulting in higher than anticipated medical claims cost passed on to Prudential.</p>	<p>This risk is best managed by retaining the right to reprice products and appropriate overall claims limits within policies, either per type of medical treatment or in total across a policy, annually and/or over the policy lifetime. Medical reimbursement downgrade experience (where the policyholder reduces the level of the coverage/protection in order to reduce premium payments) following any repricing is also monitored by the Group's businesses.</p>
<p><b>Morbidity risk</b></p> <p>Morbidity risk is the risk of deviations in the future frequency and magnitude of non-fatal accident and sickness claims relative to initial assumptions that are adverse to shareholder value. It can be influenced by a range of factors including: inflationary, economic and other pressures on the cost of medical treatment; medical advances which can reduce the incidence and improve recovery rates of serious health conditions but can also increase diagnosis rates and/or increase treatment costs of certain conditions; government and regulatory policies; opportunistic activities (including fraud); and natural events (including pandemics). Morbidity risk can also result from: product design features that incentivise adverse policyholder behaviour; inappropriate or insufficiently informed initial assumptions; claims volatility due to random fluctuation or a large-scale systemic event; insufficient recognition of an individual's medical; financial and/or other relevant circumstances during the policy application assessment process; and/or ineffective claims assessments leading to payment of claims that are inconsistent with the insurance product's contract and/or best practice.</p>	<p>Morbidity risk is managed through prudent product design, underwriting and claims management, and for certain products, the right to reprice where appropriate. Prudential's morbidity assumptions reflect its recent experience and expectation of future trends for each relevant line of business.</p>

## Risk description

## Risk management

### Insurance risks continued

#### Persistency risk

Persistency risk results from adverse changes in policy surrenders, paid-ups and other policy discontinuances. In general, lower persistency experience results in deterioration of profits and shareholder value and can be an indicator of inadequate sales quality controls, and can elevate conduct, reputational and regulatory risks. Persistency risk generally stems from misalignment between customer needs and purchased product as a result of insufficient product collaterals and/or sales process, insufficient post-sale communication and engagement with the customer leading to a deterioration of appreciation of the value of their policy, operational barriers to premium renewal payment, and/or changes in policyholder circumstances resulting from external drivers.

Persistency risk is managed by appropriate controls across the product life cycle. These include: review and revisions to product design and incentive structures where required; ensuring appropriate training and sales processes, including those ensuring active customer engagement and high service quality; appropriate customer disclosures and product collaterals; use of customer retention initiatives; and post-sale management through regular experience monitoring. Strong risk management and mitigation of conduct risk and the identification of common characteristics of business with high lapse rates is also crucial. Where appropriate, allowance is made for the relationship (either assumed or observed historically) between persistency and investment returns. Modelling this dynamic policyholder behaviour is particularly important when assessing the likely take-up rate of options embedded within certain products.

### Business concentration risk

Prudential operates in markets in both Asia and Africa via various channels and product mix; although largely diversified at the Group level, several of these markets are exposed to certain levels of concentration risk. From a channel concentration perspective, some of the Group's key markets rely on agency and some markets rely on bancassurance. From a product concentration perspective, some of the Group's markets focus heavily on specific product types, depending on the target customer segments. Geographically, the Greater China (Hong Kong, the Chinese Mainland and Taiwan) region contributes materially to the Group's top and bottom lines. Uncertainties in macroeconomic and geopolitical conditions as well as regulatory changes may elevate business concentration risk including any potential slowdown in business from Mainland Chinese visitors and in the Chinese Mainland, and adversely impact the Group's business and financial condition.

To improve business resilience, the Group continues to look for opportunities to enhance business diversification by building multi-market growth engines as part of its strategy.

### Risks associated with the oversight of the Group's joint ventures and associates

Prudential operates, and in certain markets is required by local regulation to operate, through joint ventures and other joint ownership or associates. For such operations, the level of control exercisable by the Group depends on the terms of the contractual agreements between participants. Whilst the joint ventures and associates are run as separate entities, the Group's interests are best safeguarded by our ability to effectively oversee and influence these joint venture and associates in a way that is proportionate to our ownership level and control. Further information on the risks to the Group associated with its joint ventures and other shareholders and third parties are included in section 3.6 of the Risk factors.

The Group exercises primary oversight and control over joint ventures and associates through our nominated directors and other representatives on the Board and Board Committees, whose appointments are subject to regular review. The Group has effective access to management information on these businesses via the Board and Board Committees, the businesses' public disclosures, and established regular touchpoints with key business functions of these organisations (eg audit). Key updates on joint ventures and associates are provided to the Group's governance such as the Risk Committee and the Audit Committee.