Risk continued

Risk	Description	Comment and outlook	Mitigating actions
Economic conditions	The risk that depressed economic conditions further exacerbate existing challenges around affordability for customers with reduced spending power which could impact the profitability or viability of the business.	• The macroeconomic environment is challenging in most markets. In many markets we are seeing heightened inflationary pressures and increased interest rates. This is challenging both consumer and government spending. • Weakened economic environments are also likely to compound the existing affordability challenges in health insurance as premiums rise, driven by high medical and wage inflation.	• We regularly review our products and offerings to ensure that we continue to provide value to our customers despite the economic challenges and affordability constraints. • Management of the financial and performance risks as a result of the challenging economic conditions is a key focus of management
Social licence to operate	The risk that reputational damage could impact our social licence to operate and therefore our ability to achieve our strategic objectives.	• Like many global companies, we face an increased risk of stakeholder activism and greater scrutiny of our record as a socially responsible company on topics such as the environment and climate change and other issues which can be interpreted as having a 'ethical' dimension, e.g. executive and/or low pay, Diversity, Equity and Inclusion, treatment of suppliers, governance, responsible investment. Adverse comments and unfavourable media coverage can impact Bupa's reputation. • Our reputation can also be impacted by adverse operational issues such as cyber attacks.	• Reputational contagion risk remains prominent in our operational and reputational risk management agenda with a focus on resolving and learning from issues faced. • With the continuing implementation of our new sustainability strategy we have increased our focus on management of sustainability and ESG risks. For more information see sustainability strategy on pages 34 to 39. • The implications of failures to manage our reputation has been one of the key focus areas of our stress-testing programme this year
Strategic workforce risks	Risks associated with the resilience of our own people, including safety and wellbeing and capacity, which impact on our employees' ability to deliver for the customer. This also includes strategic risks associated with workforce availability.	• In many markets we continue to see strategic challenges associated with workforce availability, particularly clinical workforce, exacerbated by cost-of-living challenges, which may impact our ability to deliver services.	• Workforce availability remains a key area of focus for senior management with a range of activities under way in each market to address challenges. For more information see People and Culture on pages 28 to 33.

Financial risks associated with climate change

We have integrated climate risk management into our existing Group-wide Risk Management Framework ('RMF'), which sets out how we identify, assess, manage and report on risks. We will continue to ensure that climate-related risks are considered appropriately throughout our governance arrangements, including the policy framework and management committees' responsibilities. We also continue to reflect on changes in regulatory expectations (e.g., from the Prudential Regulation Authority, (PRA)) while embedding climate risk management through the RMF.

As a result, the financial risks from climate change do not appear in our principal risks above, but the table below does show how the key themes are impacted by each risk.

Risk drivers	Relevant principal risk and potential impact	Mitigating actions
Transition: Policy and legal	**Government, legal and regulatory change risk** We must continue to prepare for, and then comply with, emerging regulations (primarily driven through our insurance business but becoming increasingly relevant for all businesses globally). As such, there is a risk of fines, penalties, and litigation in the event of regulatory non-compliance, which could also result in reputational damage. Short, medium and long term.	• Our Horizon Scanning process continues to identify relevant legislative and regulatory changes across a broad spectrum of topics, including consideration of ESG-related (including climate change) developments. • We have recruited dedicated resource focused on ESG and Sustainability disclosures, and we continue to ensure Bupa prepares for and responds to reporting trends and requirement changes accordingly.

Risk continued

Risk drivers	Relevant principal risk and potential impact	Mitigating actions
Transition: Reputation	**Social licence to operate** Stakeholder expectations on all ESG-related areas, including climate change, are increasing. As such, there is a risk of reputational damage and loss of trust in our brand – across the Group – occurring as a result of not taking appropriate action to meet those expectations, not meeting commitments, or by greenwashing. Short, medium and long term.	• The sustainability strategy focuses on building a healthier future for people and planet. There are governance structures in place to oversee the delivery of the sustainability strategy. • Engagement in partnerships with various networks and coalitions to help keep abreast of developments, and to drive systemic, sustainable change in healthcare through collaboration and innovation (e.g. the Norman Foster Foundation and Health Care Without Harm). • Communication policies and procedures, and disclosure governance in place to reduce likelihood of publishing misleading sustainability claims.
Transition: Market	**Property** Changes in severity, frequency, and variability in weather patterns may result in decreases in property valuations. This could be caused by reduced demand for services in areas more prone to climate change, additional operating costs and capital expenditure required to adapt properties to either meet or anticipate increasing market demands and future regulation in response to changes in weather-related events and decarbonisation agenda, and/or by the availability and affordability of insurance. Medium and long term.	• We continue to perform a range of climate-related stress testing to explore possible impacts to property valuations (which are not currently believed to be material to our business). • Geographical spread of properties helps to diversify exposure. • Merger and Acquisition decision-making process also incorporates climate risk (physical) as a factor to consider. • We concluded a facilities-related global scope 1 and 2 decarbonisation modelling project which provided insights to enable the planning of our decarbonisation efforts in order to meet our 2030 Science-based Target and Net Zero ambition. These insights are now being adopted within business planning.
	Credit spreads and counterparty default Our investment portfolio is exposed to potential adverse valuation impacts driven by both transition and physical risk exposures in the companies in which we invest. Medium and long term.	• We place exposure limits on the sectors and countries most at risk from climate change. In 2022 we set targets for our investments, including a 1.5°C by 2040 temperature alignment target validated by the Science Based Targets initiative (SBTi), to reduce the GHG emissions of our investments, and we are taking action to achieve emissions reduction while helping to finance the transition to a low-carbon economy.
	Economic conditions Our customers (corporate and/or personal) will likely be affected by climate change, which could negatively impact their financial resources. This could result in lower revenues for Bupa (e.g. due to increased lapses of insurance policies). Medium and long term.	• We regularly review our products and offerings to ensure that we continue to provide value to our customers despite the economic challenges.
Physical: Acute and chronic	**Operational** Climate change may increasingly cause operational disruption (directly or indirectly through, for example, third parties and supply chain), which could compromise Bupa's ability to deliver products and services safely to customers, patients, and residents; the health and safety of Bupa's people could also be impacted. Short, medium and long term.	• The Operational Resilience Framework takes into account extreme weather events. • Practical guidance has been published, built on cross-functional collaboration to address a selection of the identified physical risks (e.g. heatwave and flooding in care homes).
	Insurance Increases in global temperatures and changes in weather patterns will affect the healthcare needs of our customers and may lead to increased claims costs or shifts in the treatments required. Our insurance business aside, this could also impact our health provision and aged care businesses (e.g. the elderly population may be more susceptible to extreme heat, but less so from extreme cold). Long-term	• We know that people will be more unwell in a world that experiences increased climate change. The short-tailed nature of our products allows us to respond through pricing, although this can be limited by pricing controls in some markets. The affordability impacts from price increases would need to be carefully considered. • Bupa is currently deepening its understanding of the potential long-term impacts of climate change on customers' health and claims, and consider how we may adapt our insurance product offerings (e.g. product benefits, financial incentives, target market). The exploratory assessment will run over 2024.

1. Short term (1-3 years). Medium term (3-5 years). Long term (5+ years).

Risk continued

We have incorporated the financial risks from climate change into our wider stress-testing programme. The results of our scenario analysis carried out to date suggest that our strategy is resilient to the financial risks from climate change. We continue to evolve and mature our climate scenario analysis along with our disclosure approach and scan for developments and improvements in scenario methodology and data.

The following section sets out some of the key highlights from tests performed to date.

Climate Biennial Exploratory Scenario (CBES) scenarios

Bupa voluntarily participated in the PRA's CBES to help explore the possible impacts to the Group balance sheet from climate change over a 30-year horizon across two regulatory climate scenarios: 'Late Action': a ~2°C global warming by 2100, disorderly transition scenario, achieving net zero by 2050 (comparable with the Network for Greening the Finance System (NGFS) Disorderly scenario); and 'No Additional Action', a 4°C global warming by 2100 scenario with high physical risk due to a lack of sufficient policy action to curb carbon emissions (comparable to the NGFS Hot House World and the Representative Scenario Pathway (RCP) 8.5 scenarios).

We have tailored some of the provided property valuation shock parameters to ensure relevance for our specialist property portfolio (e.g. care homes, retirement villages, and hospitals) based on the direct impacts of increased physical risk (e.g. floods) and the wider response of key stakeholders to higher physical risks which could result for instance in increased adaptation and insurance premium costs. We relied on the most granular publicly available third-party data sources by geography, and supplemented the analysis with additional internal judgements. The scenarios also include an assessment of the impacts on our investment portfolio and the value of Bupa's debt.

Other scenarios

Our latest Stress and Scenario Testing programme helped us to better understand localised climate change risks as well as a range of potential impacts which could be driven by climate change (although not exclusively) over the following 12-month period. For example: global scenarios includes; impacts of increased inflation on insurance claims and expenses across all businesses (possibly a potential outcome of an energy price shock and/or carbon pricing). Examples of local (i.e. Business Unit) scenarios include: impacts of strategic workforce risks (including workforce shortages, increased attrition, and higher staff costs), supply chain disruption risk, and regulatory changes.