INTRODUCTION

MMI's risk philosophy recognises that managing risk is an integral part of generating shareholder value and enhancing stakeholder interests. It also recognises that an appropriate balance should be struck between entrepreneurial endeavour and sound risk management practice.

RISK MANAGEMENT STRATEGY

MMI's key risk management strategies are to:

- Understand the nature of the risks MMI is exposed to, the range of outcomes under different scenarios, and the capital required for assuming these risks.
- Manage shareholder value by generating a long-term sustainable return on the capital required to back the risks assumed.
- Ensure the protection of client interests by maintaining adequate solvency levels.
- Ensure that capital and resources are strategically focused on activities that generate the greatest value on a risk-adjusted basis.
- Create a competitive long-term advantage in the management of the business with greater responsibility to all stakeholders.

MANAGEMENT AND THE BOARD

Risk management enables management to deal with uncertainty and its associated risks and opportunities effectively, enhancing the capacity to build value.

The MMI board is ultimately responsible for the end-to-end process of risk management, and for assessing its effectiveness.

Management is accountable to the board for designing, implementing and monitoring the process and for integrating it into the day-to-day activities of the group.

The board discharges these responsibilities by means of frameworks and policies approved and adopted by the board and its designated committees that direct the implementation and maintenance of adequate processes for corporate governance, compliance, and risk management. The risk management framework applies to all segments, centres of excellence and group-wide functions.

The chief risk officer (CRO) of MMI is the head of the risk function in the business and is supported by individual risk type heads, segmental risk management teams and their CROs. The head of the actuarial function provides assurance to the board on the accuracy of calculations and appropriateness, of the assumptions underlying the technical provisions and capital requirements, both from a regulatory and economic balance sheet perspective.

RISK APPETITE

MMI's risk appetite is formulated by the group executive committee and approved by the Board Risk, Capital and Compliance Committee, and expresses the level and type of risk which MMI is prepared to seek, accept or tolerate in pursuit of its strategic objectives.

The risk appetite includes quantitative boundaries on risk exposure and the group's economic capital requirements, supported by a detailed risk strategy. The risk strategy, which is also approved by the Board Risk, Capital and Compliance Committee, provides a qualitative specification of MMI's appetite for exposure to the different types and sources of risk.

The setting of risk appetite is fundamentally driven by the dual, and at times conflicting, objectives of creating shareholder value through risk taking, while providing financial security for customers through appropriate maintenance of the group's ongoing solvency. MMI's appetite for exposure to the different types and sources of risk is aligned with the strategic vision of MMI to be the preferred lifetime Financial Wellness partner of our clients, with a reputation for innovation and trustworthiness.

RISK TAXONOMY

BUSINESS AND STRATEGIC RISK

Business and strategic risks for MMI are risks that can adversely affect the fulfilment of business and strategic objectives to the extent that the viability of a business is compromised. This includes reputational risks and the impact of the macroeconomic and business operating environment.

LIFE INSURANCE RISK

Life insurance risk for MMI is the risk that future claims and expenses will cause an adverse change in the value of long-term life insurance contracts. This can be through the realisation of a loss, or the change in insurance liabilities. The value of life insurance contracts is the expectation in the pricing and/or liability of the underlying contract where insurance liabilities are determined using an economic boundary. It therefore relates to the following risk exposures: mortality, morbidity/disability, retrenchment, longevity, life catastrophes, lapse and persistency, expenses and business volumes.

NON-LIFE INSURANCE RISK

For short-term insurance, it is defined as the risk of unexpected underwriting losses in respect of existing business as well as new business expected to be written over the following twelve months. Underwriting losses could result from adverse claims, expenses, insufficient pricing, inadequate reserving, or through inefficient mitigation strategies like inadequate or non-adherence to underwriting guidelines. It covers premium, reserve, lapse and catastrophe risk exposures.

CREDIT RISK

Credit risk for MMI is the risk of losses arising from the potential that a counterparty will fail to meet its obligations in accordance with agreed terms. It arises from investment activities but also non-investment activities, for example reinsurance credit risk, amounts due from intermediaries, policy loans and script lending. MMI accepts credit risk on behalf of its policyholders and shareholders.

MARKET RISK

Market risk for MMI is defined as the risk of losses arising from adverse movements in the level and/or volatility of financial market prices and rates. This includes exposure to equities, interest rates, credit spreads, property, price inflation and currencies.

LIQUIDITY RISK

Liquidity risk for MMI is the risk that, though solvent, the organisation has inadequate cash resources to meet its financial obligations when due, or MMI can only secure these resources at excessive cost. MMI differentiates between funding liquidity risk (the risk of losses arising from difficulty in raising funding to meet obligations when they become due) and market liquidity risk (the risk of losses arising when engaging in financial instrument transactions due to inadequate market depth or market disruptions).

OPERATIONAL RISK

Operational risk for MMI is the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputational risk.

COMPLIANCE RISK

Compliance risk for MMI is the risk of legal or regulatory sanctions, material financial loss or loss to reputation that the entity may suffer as a result of its failure to comply with legislation, regulation, rules, related self-regulatory organisation standards or codes of conduct applicable to the activities of the entity.

For further detail on MMI's risk management, refer to page 173 and the MMI website **www.mmiholdings.com**.