RISK MANAGEMENT

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RISK MANAGEMENT PHILOSOPHY AND OBJECTIVES

As a financial services company active in investments, life insurance, retirement services, long-term and short-term insurance, the Mauritius Union Group is naturally exposed in its daily business activities and strategic planning to numerous types of risk, like change in mortality rates, undergoing losses due to man-made or natural catastrophes, losing income ability through operational disruptions, outliving of assets and so on. Where there is a risk, there is improbability, and where there is improbability, there is exposure to volatility.

Risk management in practice is where companies steadily identify, quantify and manage the various types of risk inherent to the operations. The most vital goals of a sound risk management program are:

- To manage the business's exposure to prospective earnings and capital capriciousness.
- To capitalize value for the organization's different stakeholders.
- Ensuring risk arising from our exposure in the East Africa Market are identified, monitored, quantified and adequately managed.

We are fully committed to maintain our existing strategy of embedding risk management in what we do as it is the source of value creation as well as an essential form of control. It is an integral part of maintaining financial stability for our customers, shareholders and other stakeholders.

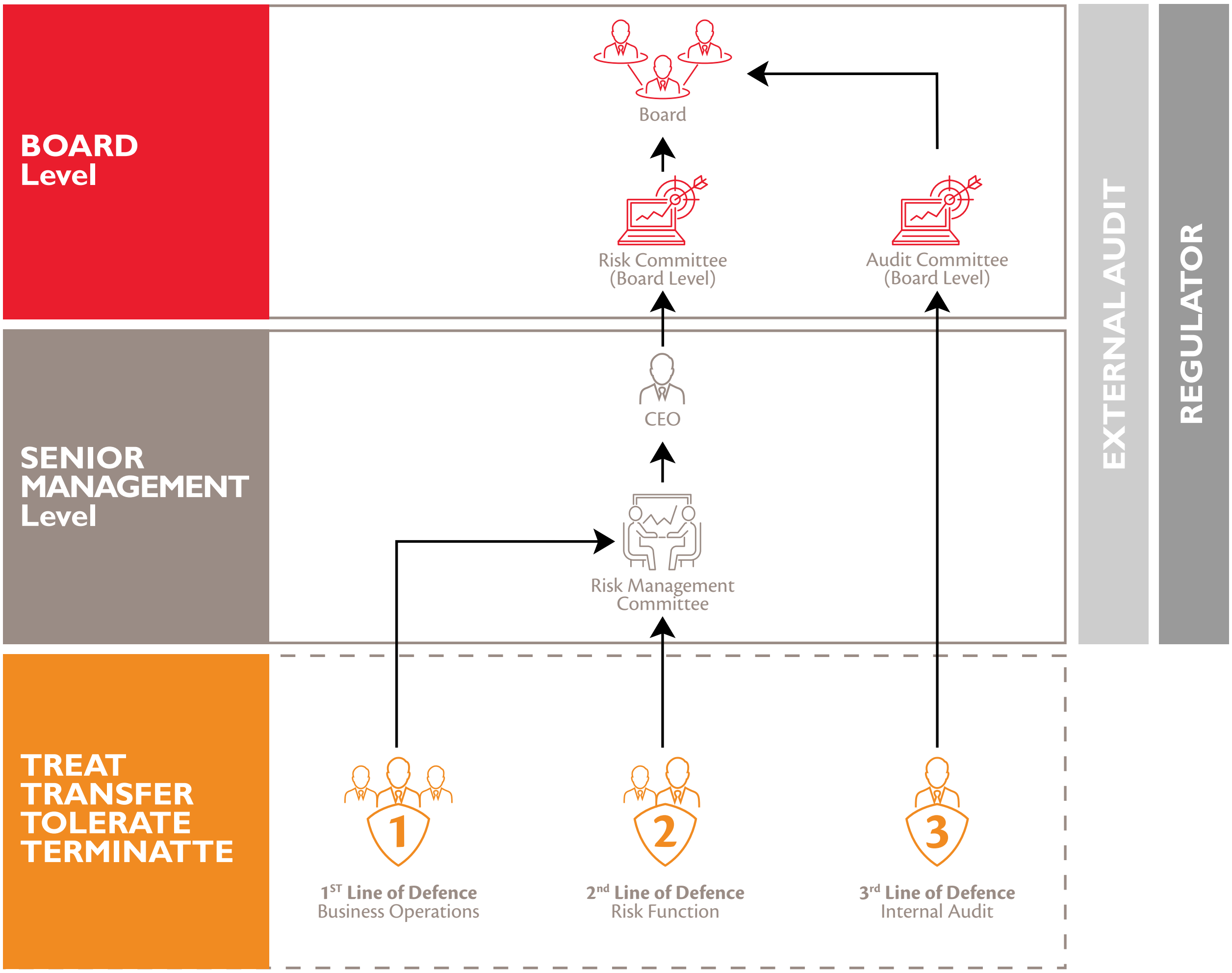
Our sustainability and financial strength are buttressed by an effective risk management process which helps us identify major risks to which we may be exposed, while instituting appropriate controls and taking mitigating actions for the benefit of our customers and shareholders. The Mauritius Union Group's risk strategy is to invest its available capital to optimize the balance between return and risk whilst maintaining an appropriate level of economic capital and regulatory capital in accordance with its risk appetite.

Consequently, our risk management objectives are based on the following:

Open risk culture: Promote a strong risk management culture amongst our staff, driven by a robust risk governance structure and clear risk appetites.
Ensure that sufficient capital surpluses are available to meet the expectations of customers, shareholders and be compliant with regulatory obligations, and whilst meeting our liabilities even if a number of extreme risks were to materialize.

Clear accountability: our operations are based on the principle of delegated and clearly defined authority. Individuals are accountable for the risks they take on and their incentives are aligned with the Group's overall business objectives subject to a rigorous monitoring.

RISK MANAGEMENT OVERVIEW



The Group has a defined step by step approach with respect to risk management. The above diagram illustrates the high level process, whereby risks can be managed through the 4 T's, at each step.

Treat: Take action to control the risk either by reducing the likelihood of the risk developing or limiting the impact it will have on the project

Transfer: Some of the financial risks maybe transferable via insurance or contractual arrangements or accepted by third parties

Tolerate: Nothing can be done at a reasonable cost to mitigate the risk or the likelihood and impact are at reasonable level

Terminate: Do things differently and remove the risk

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TYPES OF RISKS – INHERENT V/S RESIDUAL

The inherent risk is the one that exists before a company addresses it, that is the risk to the Group in the absence of any action taken to alter either its likelihood or its impact. Every company faces it, not all manage it effectively. These risks are reflected mainly on how you do business; its complexity, growth, changes; the staffing; technology and the organizational structure.

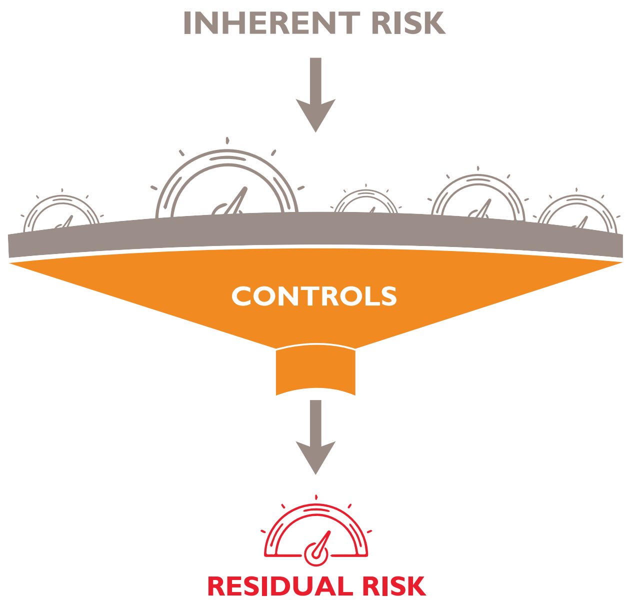
The residual risk is also known as "vulnerability" or "exposure". It is the risk that remains after the company has attempted to mitigate the inherent risk.

Adopting the approach of Enterprise Risk Management within the Group, where management provides assurance and internal audit provides reassurance, management is responsible for:

- Assessing the inherent risk (i.e., before mitigation and controls).
- Assessing the effectiveness of existing risk mitigation and controls.
- Determining the residual risk (i.e., the risk that remains after mitigation and controls are implemented).
- Determining whether such exposure is within the company's risk appetite for that type of risk, and if not, taking additional steps to mitigate the risk.
- Providing reasonable assurance to the board that the controls are both effective and efficient in managing the exposure so that it remains within the board-approved appetite for that type of risk.

The diagram below illustrates how the Group's risk control framework minimizes the number of inherent risks to residual ones. The duty of the risk management is to review continuously the internal controls of the inherent risks and to monitor closely the residuals risks while taking actions when appropriate.

RISK CONTROL FRAMEWORK



INHERENT RISK	MITIGATION/CONTROLS	OUTCOME	RESIDUAL RISK
Catastrophe (Fire, Cyclone, Flood)	Business Continuity Management Plan	Different site, business continues/resumes	Phased resumption of operations
(Virus, Hackers) Cyber Threats	Cyber Security Framework	Prevention from loss of data, protection (downtime)	Contained Cyber Risk
Onboarding high risk motor insurance clients (e.g. high claims history, risky vehicle make and model)	Underwriting guidelines	Strong client base	Despite the improved loss ratio, deal with the current claims' frequency and severity
Non-compliance to laws and regulations	Compliance framework	Compliance with applicable laws and regulations	Different interpretations of laws and regulations
Lack of well-trained staff	Training policy	Adequately trained staff	Trained staff turnover

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RISK MANAGEMENT RESPONSIBILITIES

The Mauritius Union Group has adopted the 'three-lines-of-defence' model where ownership for risk is taken at all levels in the Group. This model is widely adopted by financial services companies globally. It clearly sets out the risk management responsibilities across the business and is consistent with the current regulatory risk-based approach, encompassing corporate governance, systems and controls.

CEO | BOARD

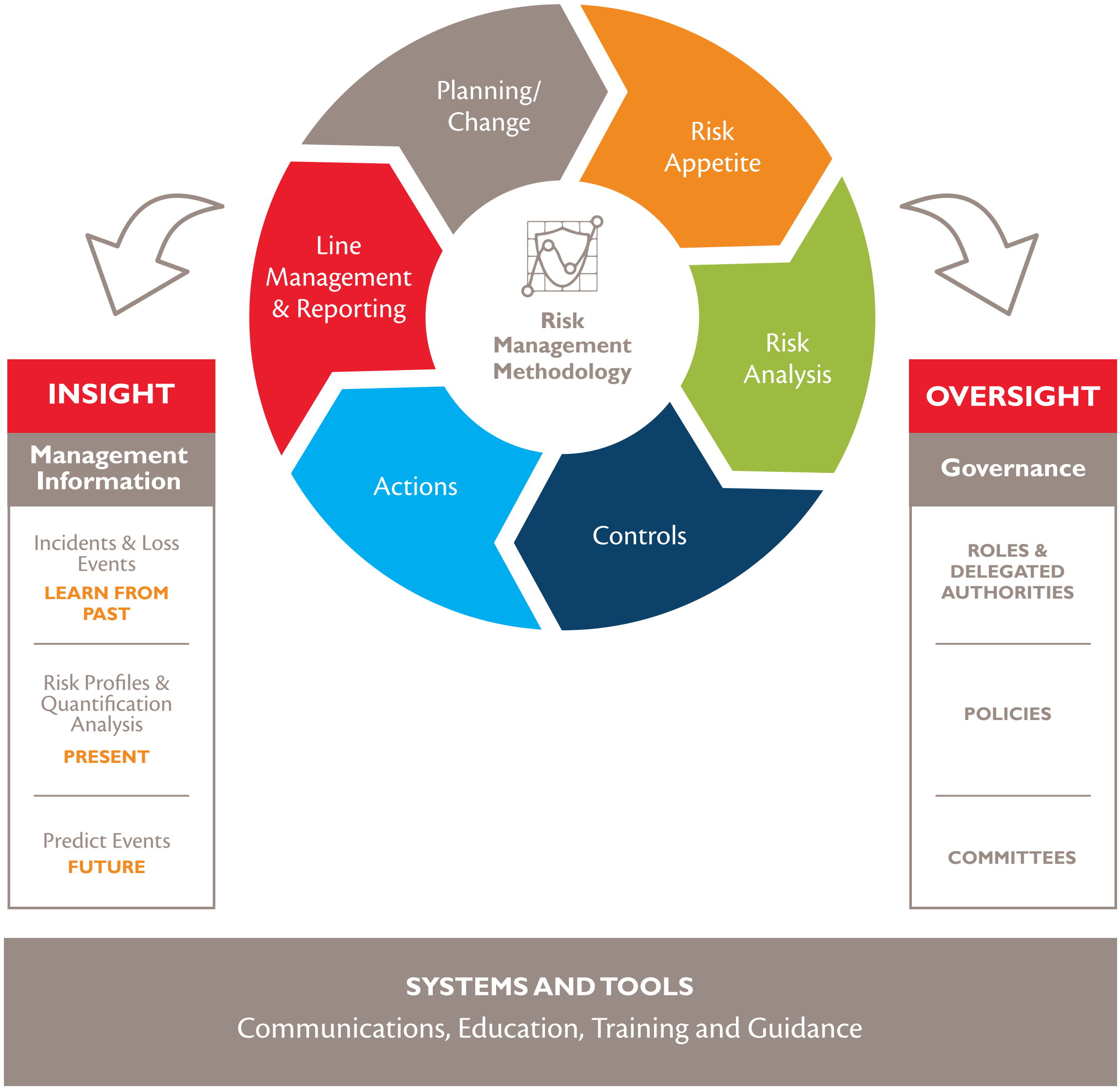
STRATEGY, RISK APPETITE AND POLICY

Operational management, decison-making staff, Business Units	Risk Management and Compliance	Risk Committee & Audit Committee Internal & External Audit
Doing and recording	Internal verification	Independent verification
Delegated authority to: • Develop and implement internal controls within the key processes of operational clusters according to risk appetite statement • Manage risk • Escalate new risk	Objective oversight of risks. Key activities include: • Designs and deploys the overall risk managment and compliance frameworks • Develops and monitors policies and procedures • Monitors adherence to framework and strategy	Independent and objective assurance over the effectiveness of corporate standards and business compliance: • Independent assurance that the risk management process is functioning as designed and identifies improvement opportunities
Assurance: management based	Assurance: risk and legal based	Assurance: independent based
1st line of defence	2nd line of defence	3rd line of defence

THE RISK MANAGEMENT FRAMEWORK

The Group Audit and Risk Methodology is fully risk-based and aligned on COSO (Committee of Sponsoring Organizations of the Treadway Commission) Enterprise Risk Management (ERM) Framework. The COSO ERM Framework is the broadly accepted standard against which organizations can benchmark their internal control activities.

The Mauritius Union Group's risk management framework forms an integral part of the management and Board processes as well as the decision-making framework across the organisation. The key elements of the risk management framework are illustrated below:



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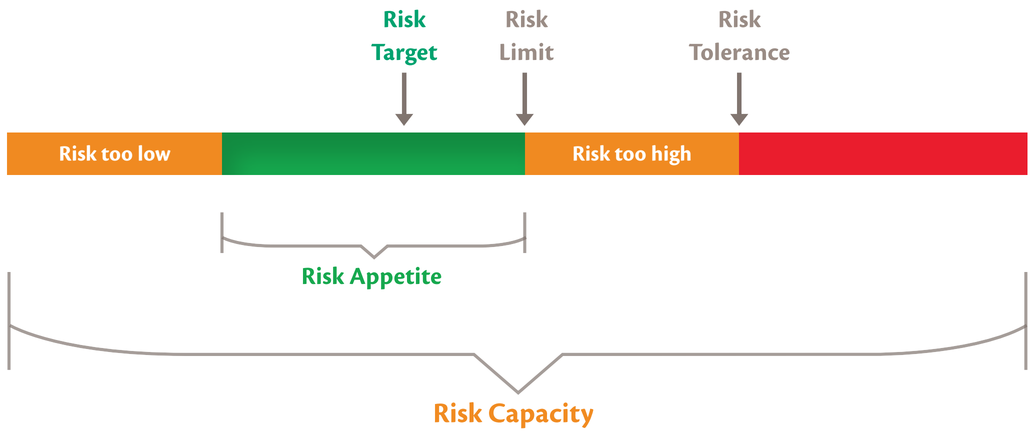
RISK APPETITE



> ***"Designing risk management without defining your risk appetite is like designing a bridge without knowing which river it needs to span. Your bridge will be too long or too short, too high or too low, and certainly not the best solution to cross the river in question."***
>
> TJ Koekemoer,
> Ernst & Young Risk Managment Report, May 2012

The risk appetite is the level of risk the Group acknowledges and is able to accept in the pursuit of its strategic objectives.

The strategic and operational planning process supports the group in optimally exploiting its opportunities. This involves the consideration of the portfolio of opportunities identified by businesses, leading to decisions by the Board in relation to the opportunities the group wishes to pursue.

Capital is allocated to businesses to support delivery of these plans. The group's required returns will be reflected in the targets set for businesses, including targets for return on capital employed, growth in business and profitability and dividend payment expectations.

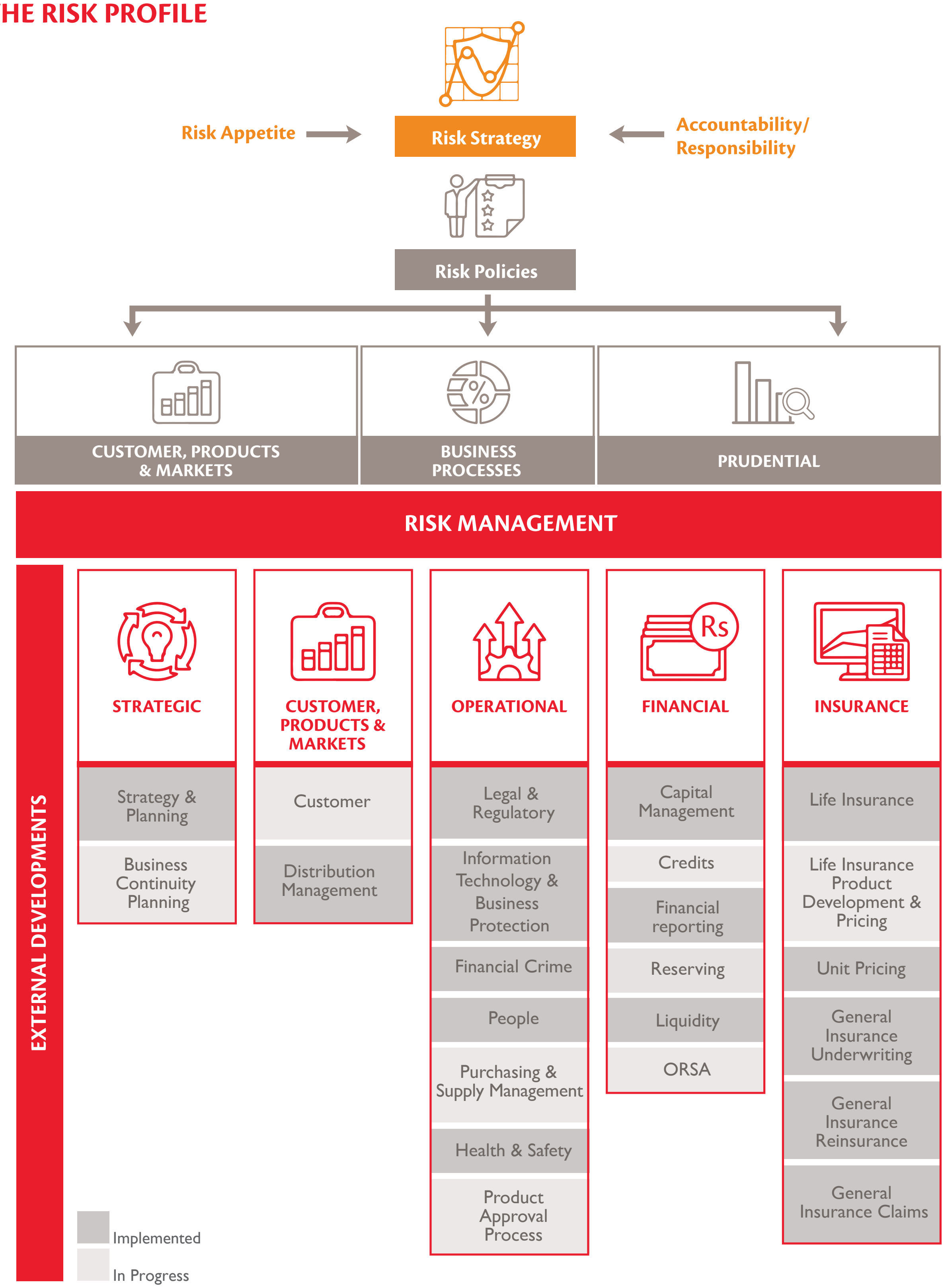
The group's business plan, capital allocation and business targets are therefore a key component of the group's risk appetite. Risk appetite will accordingly continually evolve and be reviewed.

POLICIES AND PROCEDURES

To inculcate a consistent and rigorous approach to risk management across all the businesses in which we operate, we observe a set of formal risk policies. These delineate risk management and control requirements for the Group's operations. As our business responds to changing market conditions and customer needs, we regularly monitor the appropriateness of our risk policies to ensure that they remain up-to-date.

We regularly identify and review risk exposures. Where risks are outside of tolerance, action plans are required. Similarly, controls are regularly reviewed for effectiveness and corrective actions implemented where necessary. This helps to provide assurance to the various risk oversight committees that there are appropriate controls in place for all our core business activities, and that the processes for managing risk are understood and followed consistently across our businesses.

THE RISK PROFILE



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CRITICAL RISKS	MANAGEMENT AND MITIGATIONS EXAMPLES
Strategic Risk	
Definition: The risk of a negative impact on the company's value, arising from the adverse effect of management decisions regarding business strategies and their implementation. This risk reflects on the compatibility between strategic goals, business continuity management and the resources deployed to achieve those goals. Strategic risk also includes the lack of management's ability to effectively analyse and react to external factors (e.g. market conditions/ natural catastrophes) which could affect critical operations of the Group and prevent critical services to be resilient. **Owner: Chief Executive Officer**	
Strategy & Planning	• We agree, monitor and manage Strategic Targets. • Emerging risks are identified and managed using established Risk Management Framework.
Business Continuity Management	• We are in the process of implementing a Business Continuity Pan.
Customer, Products & Markets Risk	
Definition: During insurance operations, there may be a risk related to customer management, brand management, products and distribution management which can cause significant damage to the group's reputation, profitability, future business and market share. **Owner: Chief Executive Officer**	
Customer	• We have a strong culture of considering customers' perpectives and it is imperative that we deliver the right outcome for them.
Distribution Management	• An adequate selection of sales force is done with satisfactory sales capabilities, customer centricity in compliance with the regulatory framework, in order to distribute Mauritius Union group's products effectively.
Brand & Marketing Communication	• We make use of outside skilled cousultants in the fields of marketing, communication and advertising.
Corporate Responsibility	• We have put in place a Corporate Social Responsibility (CSR) committee to look after all CSR related activities.
Environment	• We have launched e-documents for insurance policies to be in line with our philosophy of reducing carbon footprint.
Operational Risk	
Definition: Operational risks are risks of loss and/or opportunity gain foregone resulting from inadequate or untried internal processes, human error and systems' malfunction, fraud or from external events. Most organizations like MUA Group accept that their people and processes will inherently incur errors and contribute to ineffective operations. In evaluating operational risk, practical remedial steps should be emphasized in order to eliminate exposures and ensure successful responses. **Owner: Heads of Support Functions**	

CRITICAL RISKS	MANAGEMENT AND MITIGATIONS EXAMPLES
Operational Risk	
Information Technology	• Improved performance of our IT systems across the board, while focussing on the development of future system capability is key for us. With significant changes underway, we are monitoring risks associated with out IT systems' stability, cyber security and internal control environment.
Legal & Regulatory	• We work towards efficient and customer friendly processes while having a strong risk based approach to minimise exposure and ensure robustness of processes.
Financial Crime	• We have established procedures in place for money-laundering and fraud management. We provide continuous training to our employees with regards to the inherent risks faced by our business. These include: Proper reporting processes to the Money Laundering Reporting Officer; processes in case of Suspicious transactions; Politically Exposed Persons; and a Whistleblowing Policy.
People	• We make sure that the objectives of our employees are aligned with the company's business objectives and are reviewed annually.
Outsourcing	• We monitor performance of our outsourced activities.
Health & Safety	• We have a Health & Safety committee in place to promote cooperation between the employer and employees in instigating, developing and carrying out measures to ensure the health and safety of employees.
Purchasing & Supply Management	• We have a procurement policy and committee in place.
Communications	• Information shared to internal and external stakeholders is well structured and managed.
Financial Risk	

Definition: Financial Risks as the term suggests is the risk that involves financial loss to firms. It generally arises due to instability and losses in the financial market caused by movements in stock prices, currencies, reserves, interest rates and more. Our focus is on capital management which is an accounting strategy that strives to maintain sufficient and equal levels of working capital, current assets, and current liabilities at all times.

Owner: Chief Financial Officer Head of Investment / Actuarial

Capital Management	• Capital are held with comfort margins over minimum statutory and other capital requirements, including a minimum level of capital requirements of the Insurance Act 2005 and the Insurance Rules and Regulations 2007.
Credit	• We continously monitor the ratings for our Reinsurers through credit rating agencies and make sure we purchase reinsurance from the ones with the best ratings.
Financial Reporting	• We ensure that there is a maker and checker for each financial reporting process while having in-built controls in our systems.
Reserving	• We estimate technical reserves using various actuarial and statistical techniques. Management's best estimate of total reserves is set at not less than the actuarial best estimate.
Liquidity	• We measure our liquidity risks on an on-going basis through cashflow forecasts, asset allocation and maturity profile and run scenario testings.

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CRITICAL RISKS	MANAGEMENT AND MITIGATIONS EXAMPLES
Insurance Risk	
Definition: The main activity of the group is the acceptance of risk under an insurance contract (Life/Non-life) where in return for a consideration (the premium), a policyholder is compensated for pecuniary loss suffered as a result of a specified uncertain future event. The core of our business is to underwrite those policies whereby underwriters evaluate the risk and exposures of potential clients to determine whether coverage can be provided or not and under which terms. **Owner: Heads of Business Lines Actuarial**	
Life Insurance Risk	• We make sure that the recommendations of the actuarial reports are firmly implemented.
Life Insurance Product Development and Pricing	• Products are developed, approved and managed in line with relevant risk appetite, risk preferences, capital and profitability targets and are vetted by our statutory actuary.
Unit Pricing	• We have a unit pricing guideline and governance framework in place.
General Insurance Underwriting	• Underwriting guidelines are set for all transacted business and pricing refined by analysing comprehensive data.
General Insurance Reinsurance	• Excess of loss (XOL) are determined by the business head and are approved by the Board annually at renewal.
General Insurance Claims	• We have appropriate controls in place for the detection of fraudulent claims.

ROLE OF THE RISK COMMITTEE

The Risk Committee is established by the Board of Directors to assist in its oversight of risk and risk management across the Group, including its African subsidiaries.

The committee provides an independent and objective oversight of all aspects of risk as presented in our risk profile (Strategic/Financial/Insurance etc.). It also has an oversight of all management committees such as the Risk Management Committee, the Audit Committee and the Assets and Liabilities Committee, to ensure that significant existing or emerging risks are efficiently identified, measured, managed, monitored and reported on a continuous basis.

REGULATORY DEVELOPMENTS

The Financial Services Commission (the 'FSC Mauritius') with the collaboration of the World Bank embarked on a project in 2014 aimed at strengthening prudential regulations, risk-based supervisory and resolution frameworks for the insurance sector.

The FSC Mauritius published the "Insurance (Risk Management) Rules 2016 and relevant returns rules" on 31 October 2016, which have been in force since 1 July 2017.

The main features of these rules are:

1. Risk Appetite Statements
2. Risk Management Strategies
3. Forecasted Business Plans
4. Own Risk Solvency Assessment (ORSA) Framework
5. Liquidity Policy
6. Designated risk management function; and
7. Defined responsibilities and roles and reporting lines within the insurer for the management of material risks

We have been preparing for the implementation of this new legislation over the last two years, ensuring that our business practices are aligned with the new rules as they became clearer.

The rules require the insurer to submit all documentation relating to its Risk Management Framework not later than 3 months after the company's financial year end.

As at 31 March 2018, we have complied with the requirements by submitting the following documents to the FSC:

- Risk Appetite Statements for MUA and LPM in the required FSC format (including group risks and risk management strategies).
- Risk Management Framework (including roles and responsibilities of stakeholders involved in risk management).
- The group's Risk Register (including RAG status of each risk policy).
- ORSA template.
- Liquidity Policy.
- The group's business plan.

In compliance with Section 5 (4), our external auditors have also reviewed and reported to the Board that our Risk Management Framework is compliant with the rules. Moreover, as per Section 5 (5) of the rules, our statutory actuaries have reviewed and reported to the Board on the effectiveness of our Risk Management Framework and our Compliance Framework.

The group's Compliance Framework has also been added to the company's intranet, making it accessible to all staff needing to consult the document. The framework consists of a compilation of all laws and regulations impacting the industry, and details of the clusters responsible for ensuring compliance with these laws and regulations.