MANAGING OUR RISKS AND OPPORTUNITIES FOR SUSTAINABLE VALUE CREATION

In the sections that follow we have provided a summary of our key risks and opportunities, our strategic response to these, and the governance framework that supports the delivery of our risk management strategies.

Our risk assessment process, which incorporates feedback from our risk community and the wider business, is an integral part of the Group's risk management framework. The tables that follow summarise our key strategic risks and our responses to these risks.

Economic growth and political uncertainty

The world economy continues to expand, but at a slower pace than previously. Global growth is set to soften further in 2020 as high levels of public debt limit the ability of governments in developed markets to counteract the expected slowdown in fiscal stimulus. Rising trade conflict, the reduced pace of asset purchases by governments and high debt-servicing costs for emerging market corporates continue to pose downside risks to global growth.

Within South Africa, the current political uncertainty is creating a difficult environment in which to build a longer-term strategy. The current environment will likely be characterised by a short-term future of volatile lower investment returns and continued muted economic and business recovery. The associated slow down in employment and salary increases will also continue to place pressure on operating experience.

State-Owned Enterprises also remain a key focus area. While the finances of many State-Owned enterprises remain weak, the turnaround strategies being implemented and the changes in corporate governance are key steps towards stabilising their finances and are closely monitored by management.

Our response

Our earnings and net asset value are exposed to financial markets, most significantly to movements in equity markets and interest rates. While we maintain a conservative investment mandate for shareholder assets, we derive significant exposure to financial markets as a consequential feature of our business (e.g. fee income on policyholder assets), which we accept and tolerate. Hedging and asset-liability matching strategies are implemented to maintain shareholder exposures within our risk appetite.

In line with our risk appetite, we maintain strong coverage of our regulatory solvency position to provide resilience against severe shock scenarios. Given the pressures on operating experience, we continue to focus on active capital preservation and allocation, and close management of the cost base. We have a strong focus on client outcomes, and our Outcomes-based Investment approach offers an opportunity to support clients in meeting their investment goals under challenging market conditions. As a Group, we have significant diversity in our sources of earnings, which can reduce the impact of the economic volatility on our overall results.

With regard to State-Owned Entities, we practise responsible lending aligned with our credit policy and mandates and assess each entity's financial strength on a stand-alone basis, level of government guarantees, governance and strategic importance.

Business performance

Our business performance declined for three consecutive years until 2018, from the peak in 2015. This was driven by a number of factors, including a challenging operating environment characterised by worsening unemployment, low levels of consumer and business confidence and reductions in the disposable income of our client base. In addition, our previous matrix-structured operating model resulted in a duplication of cost and it diverted focus away from our distribution capabilities. The combination of these factors resulted in pressure on new business volumes, underwriting profits and client retention.

Our response

In F2018 the Board of Directors implemented key changes in executive leadership and initiated a strategic review. Under the leadership of Hillie Meyer, appointed as Group Chief Executive Officer in February 2018, a new operating model with empowered end-to-end business units was implemented. The Reset and Grow strategy was launched at group and business unit level, with a focus on fixing the cost base, strengthening and diversifying distribution capabilities, product solution innovation, modernising IT architecture and enhancing the client experience. This strategy is intended to revitalise the Group, stimulate business volume growth, improve client retention and ensure sustainable earnings generation. (see pages 53 to 77 of the productive capital section of this report).

We have also strengthened our governance framework by introducing a number of focused Executive sub committees (New Initiatives Committee, Mergers and Acquisitions Committee, Capital and Investment Committee). These committees are accountable for ensuring appropriate capital allocation and monitoring of return on deployed capital. In addition, a Quarterly Business Review process was implemented to manage and monitor operational and strategic performance and execution. We are in the process of implementing a rolling earnings and new business forecast process across the Group, with a greater focus on revenue generation and expense management.

Talent management

Continuing operational changes and pressure on remuneration, and the scarcity of certain professional skill sets, present challenges to the sourcing and retention of talent, and to meeting the Group's transformation objectives.

Our response

Human capital is implementing a number of projects to enhance the Group's employee value proposition, talent development and succession planning (see pages 79 to 81 of the human capital section of this report).

Digital disruption

Digital transformation in the financial services industry is continuing to gain momentum, and the threat from disruptive innovation is considered a significant risk for the business strategies of traditional insurers.

New insurance business models aim to leverage deeper client relations and rapid advances in technology to deliver defined outcomes to their client base in more convenient and accessible ways.

Our response

We have empowered our business units to drive digital transformation. Business units continue to evolve their digital strategies to support their objectives, while building and advancing digital skills and capabilities (see pages 83 and 84 of the intellectual capital section of this report).

We also continue to invest in our Exponential Ventures, focusing on seed, early and growth stage investments and scalable technology, with optionality for incorporation within our innovation portfolio (see the section on new initiatives on page 77 of productive capital).

Technology risk

Technology risk, and in particular exposure to operational and reputational risk emanating from operational systems and processes, network infrastructure and cybercrime, also present growing and evolving risk exposures.

Our response

The Head of IT Security is leading key security initiatives to strengthen the security position of the organisation. These include the enhancement of our security operations centre and security incident and event monitoring capability (see page 83 of the intellectual capital section of this report).

Regulatory and legislative change

The influx of new legislative and regulatory requirements require ongoing development and operating changes, and place pressure on internal resources and management bandwidth.

Our response

We continue to work closely with the regulators on key issues. We adopt a proactive approach to engagement with regulators, and seek to manage the developmental requirements with a combination of internal and external resourcing (see page 32 for information on the activities of our Risk, Capital and Compliance Committee).

Executing our new initiatives strategy

We are currently pursuing a number of significant initiatives which have a medium to long-term payback period. These include our Indian health insurance joint venture with Aditya Birla Capital, our mobile insurance joint venture with MTN (aYo), our digital transactional banking offering (Multiply Money) and our venture capital investment (Exponential Ventures) (see pages 77 of the productive capital section of this report). The investment required and resulting earnings strain from these initiatives make the Group dependent on earnings growth from the South African business units in a challenging macro-economic and operating environment. The Group's Reset and Grow targets are dependent on the successful execution of the projected growth curves from these initiatives.

Our response

Executive oversight over the new initiatives has been strengthened through the establishment of a number of Executive sub committees (see the Business performance paragraph on page 36 of this section). Our strategic initiatives are monitored on an ongoing basis by these committees. Furthermore, regular Quarterly Business Review meetings are used to provide appropriate line of sight across the Group's initiatives and operations.

Rationalisation of the Africa portfolio

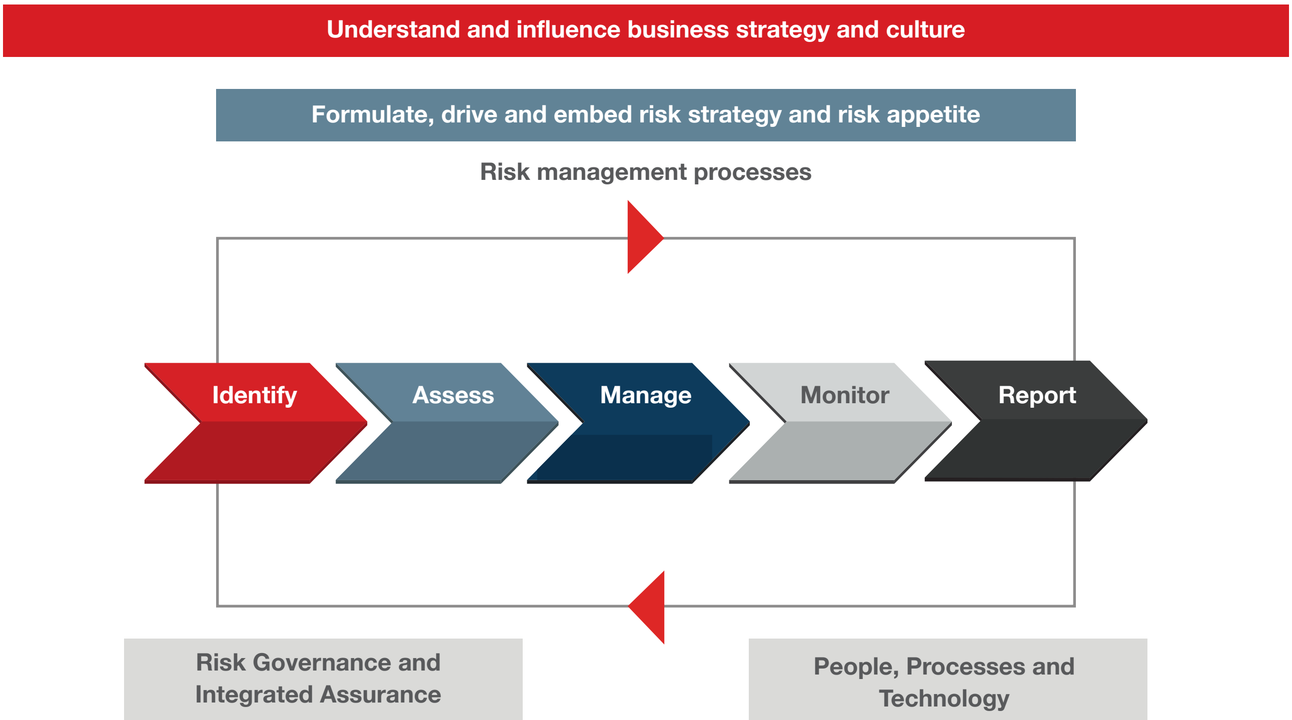
The Group has taken the decision to exit a number of African countries as part of a move to rationalise the Africa portfolio of the business. Although this is considered to be a business and strategic risk-mitigating measure, there are a number of risks associated with the execution of this strategy. These include not only the financial outcomes, but also compliance, operational and reputational risks, which depend significantly on the timeframe and manner in which the Group plans to exit from the relevant countries.

Our response

We have a dedicated steering committee to oversee the rationalisation project, and the Mergers and Acquisitions Committee has a strong focus on the Africa portfolio. Our remaining African operations are being streamlined and strategies implemented to deliver sustainable profitability and improve the control environment (see the productive capital sections of this report on pages 74 to 76).

OUR OWN RISK AND SOLVENCY ASSESSMENT (ORSA) PROCESS

We conduct a forward-looking, risk-based ORSA process in line with the requirements of the new regulatory framework. This process links the Group's risk management system, risk appetite and capital management to create a framework which is used to balance risk and return and inform business and strategic plans.



The ORSA process includes quarterly assessments of the current and forward-looking risk profile and solvency position, and assesses the Group's overall solvency needs and resilience under a range of adverse scenarios. An ORSA supervisory report is produced annually and submitted to the regulator, summarising the results and conclusions of the assessment and the ORSA process.

Momentum Metropolitan's ORSA framework and policy are based on our integrated risk and capital management processes, as envisaged under the regulatory framework. It takes into account best practice principles from various sources as well as applicable regulatory requirements.

RISK GOVERNANCE

Our Board is responsible for the governance of risk and capital management in Momentum Metropolitan (see page 85 the intellectual section of this report for information on the governance of risk in Momentum Metropolitan).

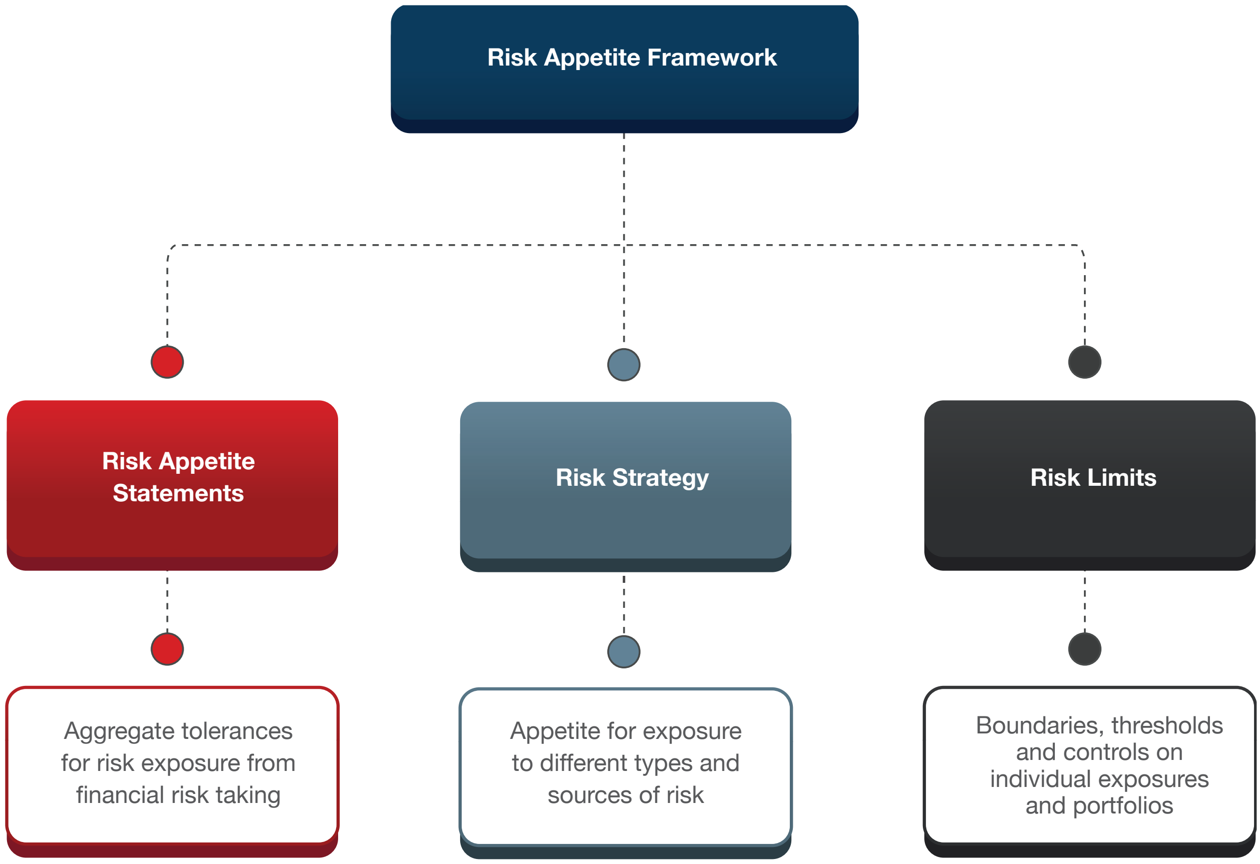
OUR APPROACH TO RISK APPETITE

The Group maintains a Board-approved risk appetite framework, the purpose of which is to articulate the level and type of risk that the Group is prepared to seek, accept or tolerate. It includes both qualitative and quantitative statements and measures and addresses the need for the Group to:

- ensure its sustainability and resilience by maintaining appropriate capital coverage and liquidity
- achieve its earnings targets without exposing the Group to excessive earnings volatility
- ensure that it also treats its customer fairly and complies with the relevant legislative and regulatory requirements.

The Group risk appetite statements are expressed as thresholds on solvency cover, earnings volatility and liquidity exposures, and consider quantitative, modelled risk exposures that result from financial risk taking. Exposure against the risk appetite statements is monitored on an ongoing basis as part of the ORSA process.

The diagram below illustrates the key components of the Group's risk appetite framework, which include the risk appetite statements, risk strategy and risk limits. We seek to optimise risk taking within the boundaries specified by these components. The regular monitoring and reporting of exposure against risk appetite is undertaken as part of our ORSA process.



Our risk appetite statements specify the total (aggregate) level of risk that Momentum Metropolitan is prepared to accept, seek or tolerate. They provide risk boundaries at a group level within which senior management and the Board steer the business in pursuit of its strategic objectives. Our risk strategy seeks to guide the way in which the Group assumes risk through the qualitative expression of its appetite for exposure to the different types and sources of risk, and is supported by quantitative tolerances and limits which are set to ensure that underlying risk exposures remain within appetite.