Policy on Risk Management and Internal Controls

RISK MANAGEMENT AND INTERNAL CONTROL POLICY -SUMMARY

1. Introduction

The Risk Management Policy of HNB Assurance PLC Group (including HNB Assurance PLC and HNB General Insurance Limited) aims to establish a comprehensive framework for identifying, assessing, mitigating, and monitoring risks across the Group. Acknowledging the rapid changes in the insurance industry, including regulatory shifts and technological advancements, the policy is periodically reviewed and updated to address emerging risks and ensure alignment with strategic objectives.

2. Objective

The primary objective of the policy is to outline the Group's risk management and internal control programs, detailing the governance structure and processes for managing risks across various business lines. The policy seeks to integrate risk management into the Group's strategic and operational decision-making processes, thereby enhancing the organization's ability to achieve itsgoals.

3. Philosophy and Approach to Risk Management

The Group's risk management philosophy centers on supporting strategic objectives by proactively identifying, analyzing, assessing, mitigating, and governing risks. The approach is guided by the company's values, culture, and commitments to stakeholders, including employees, customers, regulators, and the broader community. Effective risk management facilitates better decision- making, ensures business continuity, and drives improved organizational performance.

4. Risk Management Objectives

The Group's risk management objectives are designed to:

- Embed a consistent, risk-based decision-making approach within the company's culture.
- Minimize the adverse impacts of risks on operations, thus enhancing the Group'scompetitive advantage.
- Identify and convert risks into opportunities to improve performance.
- Develop and implement an Enterprise Risk Management (ERM) framework.
- Monitor and report key risks and mitigation plans to senior management and the Board ofDirectors.

5. Risk Governance Structure

The Group employs a Three Lines of Defense model to manage risks:

1. **First Line:** Operational management is responsible for managing risks within theirdomains.
2. **Second Line:** The Risk and Compliance function provides oversight and develops riskmanagement policies.
3. **Third Line:** Internal and external auditors ensure the effectiveness of risk managementand internal controls.

The governance structure includes several key committees, such as the Board Audit Committee, Board Risk Management Committee, and Board Investment Committee, each overseeing differentaspects of the Group's risk profile.

6. Risk Management Process

The Group's risk management process involves a structured approach to managing risks through the following steps:

- **Establishing the Context:** Define the internal and external parameters that influence risk management, including the regulatory environment, economic conditions, and organizational structure.
- **Risk Assessment:** A systematic process involving risk identification, analysis, and evaluation through workshops, interviews, and the maintenance of a Risk Register.
- **Risk Treatment:** Implement risk mitigation plans and controls to manage identified risks.
- **Monitoring and Reporting:** Continuous monitoring of risk exposures and regular reporting to relevant stakeholders to ensure effective risk management.
- **Risk Governance:** Ensures effective communication and consultation across the organization.

7. Key Risks Identified

The policy outlines several categories of risks that are critical to the Group's operations:

- **Strategic Risk:** Risks arising from adverse business decisions or misalignment between strategic goals and business strategies.
- **Legal and Regulatory Risk:** Risks associated with non-compliance with laws, regulations, or prescribed industry practices.
- **Insurance Risk:** Includes underwriting risk, reinsurance risk, and claim reserving risk, allof which are fundamental to the insurance business.
- **Credit Risk:** The risk of financial loss due to the failure of counterparties to meet their obligations.
- **Investment Risk:** Encompasses risks such as concentration risk, credit risk in

investments,interest rate risk, liquidity risk, and market risk.

- **Operational Risk:** Arises from failures in internal processes, human error, system failures, or external events. Specific risks include business continuity, fraud, information security, and human resource risks.
- **Reputational Risk:** Potential damage to the Group's brand and reputation due to negative publicity or failure to meet stakeholder expectations. Reputational risk is managed through the Risk Management Framework, which provides standards for identifying, assessing, andmanaging reputation-related issues.
- **Socio-Economic and Political Risk:** Risks associated with economic and political instability, which can adversely impact the insurance and investment activities of the Group.
- **AML/CFT Risk:** Anti-money laundering and combating the financing of terrorism risks,which require specific management frameworks to mitigate.

8. Risk Grading and Tolerances

Risks are graded based on their likelihood of occurrence and impact, using a risk matrix to formalize the assessment process. The grading helps prioritize risks, ensuring that the most significant threats are addressed. The Board of Directors sets risk tolerance levels to balance the Group's strategic ambitions with the need for safe and compliant operations.

9. Internal Control and Risk Management

An effective system of internal controls underpins the Group's risk management efforts, helping safeguard resources, produce reliable financial reports, and comply with regulations. The internal control environment is built on strong governance, ethical values, competent personnel, and robustinformation systems.

The Group distinguishes between preventive controls, such as transaction approvals and segregation of duties, and detective controls, such as reconciliations and periodic financial reviews. Together, these controls help identify, prevent, and correct errors or irregularities that could impactthe Group's operations.

10. Responsibilities and Oversight

The Board of Directors holds ultimate responsibility for the Group's risk management, supportedby several committees:

- **Board Audit Committee:** Oversees financial reporting, internal controls, and compliancewith laws and regulations.
- **Board Risk Management Committee:** Reviews the Group's risk management frameworkand ensures alignment with the Group's overall risk appetite.
- **Board Investment Committee:** Manages investment-related risks, ensuring compliancewith asset and liability management guidelines.
- **Board HR and Remuneration Committee:** Addresses human resource risks,

focusing onpersonnel management, employee morale, and the development of human capital.

Management is tasked with implementing the risk management framework, with specific roles assigned to officers responsible for various risk domains:

- **Chief Executive Officer (CEO):** Oversees strategic business risks through annualstrategic planning.
- **Chief Financial Officer (CFO):** Ensures financial reporting accuracy and compliancewith internal controls.
- **Chief Investment Officer:** Manages investment risks, including liquidity and marketrisks.
- **Chief Information Officer:** Handles information technology and cybersecurity risks.
- **Chief Marketing Officer:** Manages reputational risks, ensuring that brand integrity ismaintained.
- **Chief Legal and Compliance Officer:** Manages legal risks and ensures compliance withregulatory requirements.
- **Chief Human Resources Officer:** Oversees HR risks, including workforce managementand employee safety.

11. Review and Updates

The policy is reviewed periodically to incorporate new developments and align with best practices. Any changes require approval from the Board of Directors, ensuring that the policy remains effective and relevant in managing the Group's evolving risk landscape.

12. Conclusion

The Risk Management Policy of HNB Assurance PLC Group provides a structured approach to managing risks, aligning risk management practices with the Group's strategic objectives. By fostering a culture of proactive risk management, the policy helps ensure business continuity, safeguard assets, and maintain stakeholder confidence, ultimately supporting the long-term success of the Group.

* This policy is relevant to both HNB Assurance PLC and HNB General Insurance Ltd.