MMI GROUP LIMITED ANNUAL FINANCIAL STATEMENTS

30 June 2017

MMI GROUP LIMITED

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DIRECTORS' RESPONSIBILITY AND APPROVAL

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The directors take responsibility for ensuring that these financial statements accurately and fairly represent the state of affairs of the company at the end of the financial period and the profits and losses for the period. The directors are also responsible for the accuracy and consistency of other information included in the financial statements.

To enable the directors to meet these responsibilities:

- The company financial statements are prepared by management;

- The board is advised by the audit committee, comprising only independent non-executive directors, and the actuarial committee. These committees meet regularly with the auditors, the statutory actuary and the management of the company to ensure that adequate internal controls are maintained, and that the financial information complies with International Financial Reporting Standards and guidelines issued by the Actuarial Society of South Africa. The internal auditors, external auditors and the statutory actuary of the company have unrestricted access to these committees.

To the best of their knowledge and belief the directors are satisfied that no material breakdown in the operation of the systems of internal financial controls and procedures occurred during the year under review.

The financial statements have been prepared in accordance with the provisions of the South African Companies Act, 71 of 2008, and the Long-term Insurance Act, 52 of 1998 as amended; and comply with International Financial Reporting Standards and guidelines issued by the Actuarial Society of South Africa.

The directors have no reason to believe that the company will not be a going concern in the foreseeable future, based on forecasts and available cash resources.

It is the responsibility of the independent auditors to report on the financial statements. In order to do so, they were given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The report of the independent auditors is presented on page 5.

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The annual financial statements were approved by the board of directors on 5 September 2017 and are signed on its behalf by:

JJ Njeke
Chairman
Centurion, 5 September 2017

NAS Kruger
Chief executive officer
Centurion, 5 September 2017

CERTIFICATE BY THE COMPANY SECRETARY

In accordance with the provisions of section 88(2)(e) of the South African Companies Act, 71 of 2008 (the act), I certify that for the year ended 30 June 2017 the companies have lodged with the registrar of companies all such returns as are required of a company in terms of the act, and that all such returns are true, correct and up to date.

M Chetty
Company secretary
Centurion, 5 September 2017

CERTIFICATE BY THE STATUTORY ACTUARY

Financial position of MMI Group Limited

I hereby certify that:

- The valuation on the Statutory basis of MMI Group Limited as at 30 June 2017, the results of which are summarised in the Statement of Actuarial Values of Assets and Liabilities, has been conducted in accordance with, and this Statutory Actuary's report has been produced in accordance with, applicable Actuarial Society of South Africa Professional Guidance Notes; and
- Assets exceeded liabilities plus the Capital Adequacy Requirements at the valuation date; and
- The company met the FSB's asset spreading requirements of the Long Term Insurance Act at the valuation date; and
- In my opinion the company is financially sound at the valuation date and is expected to remain so for the foreseeable future, where financially soundness includes meeting the asset spreading requirements as prescribed by the Long Term Insurance Act.

CT van Zyl
BSc (Hons) FASSA FIA

Statutory actuary
Centurion, 5 September 2017

REPORT OF THE AUDIT COMMITTEE

We are pleased to present our report for the financial year ended 30 June 2017.

The Audit Committee of MMI Holdings Ltd (MMI), the company's ultimate holding company, acts as the audit committee for the company. The MMI Audit Committee is an independent statutory committee appointed by the shareholders.

Composition and proceedings
The MMI Audit Committee was fully functional during the financial year, and continued to discharge its responsibility with the support of the combined assurance forums established for various operating structures. The combined assurance forums report to the MMI Audit Committee on a quarterly basis. The MMI Audit Committee consists of four independent non-executive directors, and meetings are attended by key management representatives from the combined assurance forums.

External audit
The MMI Audit Committee is satisfied with the independence and objectivity of the external auditor in accordance with section 94(8) of the Companies Act, which includes consideration of the auditor's previous appointments, the extent of other work undertaken, and compliance with criteria relating to independence or conflict of interest as prescribed by the Independent Regulatory Board for Auditors. Requisite assurance was sought and provided by the external auditor that internal audit governance processes within the audit firm support and demonstrate its claim of independence.

The MMI Audit Committee recommended, and the shareholders at the MMI annual genral meeting in November 2016 approved, PricewaterhouseCoopers as the external audit firm and Mr Andrew Taylor as the designated auditor responsible for performing the function of auditor for the 2017 year.

Internal audit
To align with MMI's strategy and client-centric operating model, inter alia, MMI entered into a strategic internal audit co-sourcing agreement with KPMG as external service provider in the previous financial year.

MMI's acting chief audit executive (CAE),Ms A van der Colff is now Acting CAE since her recent appointment as MMI Group head of operations. The role of the CAE within MMI is supported by a more confined Group Internal Audit (GIA) team, and the acting CAE is responsible for managing and coordinating the KPMG relationship.

The MMI Audit Committee is responsible for ensuring that the internal audit function is independent and has the necessary resources, standing and authority within the organisation to enable it to fulfil its duties. The CAE, in discharging her duties, is accountable to the board and the MMI Audit Committee. The MMI Audit Committee decides on the CAE's appointment and removal, and is also responsible for assessing the performance of the CAE and the internal audit function. The process to fill the CAE position with a permanent appointment is in progress.

GIA operates according to the internal audit charter, which was approved by the board. In order to remain dynamic and responsive to business needs, the risk-based internal audit plan for the 2017 and 2018 financial years was approved by the MMI Audit Committee, and is monitored on a quarterly basis.

The group continues to embed the combined assurance methodology, and the results were reported to the MMI Audit Committee.

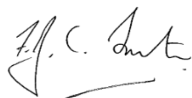
Internal financial controls (IFC)
Nothing has come to the attention of the MMI Audit Committee to indicate that the internal financial controls are not sufficiently adequate to support integrity in the presentation of the financial statements.

Governance of risk
The board has assigned oversight of the company's risk management function to the Risk, Capital and Compliance (RCC) Committee. The chairman of the RCC is a member of the MMI Audit Committee and likewise, the chairman of the MMI Audit Committee is a member of the RCC Committee, which arrangement ensures that information relevant to these committees are transposed effectively. The MMI Audit Committee oversees financial reporting risks, IFC, and fraud and information technology risks as these relate to financial reporting.

Financial statements
The financial statements of the company for the year ended 30 June 2017 are reviewed by the relevant combined assurance forum, which confirms that management presented an appropriate view of the company's position and performance. The combined assurance forum also considers that the company's accounting policies and annual financial statements comply, in all material respects, with International Financial Reporting Standards. Any non-compliance is reported to the MMI Audit Committee.

REPORT OF THE AUDIT COMMITTEE

Going concern
The MMI Audit Committee reviewed a documented assessment prepared by management, including key assumptions, of the going concern status of the company and has made a recommendation to the board in accordance with this assessment. The board's statement on the going concern status appears on page 1 of this report.



FJC Truter
Chairman of the MMI Audit Committee
Centurion, 5 September 2017

INDEPENDENT AUDITOR'S REPORT

to the shareholders of MMI Group Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of MMI Group Limited (the Company) as at 30 June 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

MMI Group Limited's financial statements set out on pages **24** to **158** comprise:

- the statement of financial position as at 30 June 2017;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the *Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B).

Our audit approach

Overview

Overall materiality

- R242 million, which represents 5% of adjusted profit before tax.

Key audit matters

- Valuation of insurance contract liabilities.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	R242 million
How we determined it	5% of adjusted profit before tax
Rationale for the materiality benchmark applied	We chose an adjusted profit before tax benchmark because, in our view, it is an appropriate measure of underlying performance and the benchmark against which the performance of the Company and other companies in this industry is most commonly measured by users. The profit before tax was adjusted for once off items which include impairment losses, sale of business and actuarial basis changes as set out in Note 34. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	***How our audit addressed the key audit matter***
Valuation of insurance contract liabilities The valuation of policyholder liabilities is considered most significant to the audit because of the judgmental assumptions inherent in the valuation. Assumptions are made for both economic and non-economic inputs into the valuation. Economic assumptions, such as discount rates, investment returns and inflation rates are based on available market information as at the financial year end. Non-economic assumptions are typically determined using past experience as a guide, which introduces an element of judgement. These non-economic assumptions include future claims experience such as for mortality, morbidity, lapses and for other items such as future expenses. The valuation of the insurance contract liabilities of R97 billion (refer to the critical judgements and accounting estimates and Note 15 in the financial statements), is based on the actuarial guidance contained in Standard of Actuarial Practice (SAP) 104.	We made use of our actuarial and data expertise and: • Performed audit procedures to verify the completeness and accuracy of data used for the valuations, including performing movement reconciliations for key data fields, as well as reconciling the policyholder data used in the valuation to the data on the administration systems or audited results; • Tested the actuarial valuation process through critically assessing the change in policyholder liabilities as explained by the analysis of surplus and liability build-ups. We considered reserves created manually outside of the models by testing the accuracy and methodology of the calculations and critically assessing management's assumptions related to future events against our knowledge of the business and the industry; • Assessed the reasonableness of economic assumptions through comparison to market observable data and non-economic assumptions through consideration of experience investigations and historical variances; and • Assessed the reasonableness of management's explanation of the sources of profits (analysis of surplus) as well as changes in the policyholder liability by considering our understanding of changes in policyholder behaviour, valuation methodology and assumptions, given product structures and relevant actuarial committee approved changes.

Other information

The directors are responsible for the other information. The other information comprises the Directors' Report, Report of the Audit Committee and the Certificate by the Company Secretary as required by the Companies Act of South Africa, and the other information contained in the MMI Group Limited Annual Financial Statements for the year ended 30 June 2017. Other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

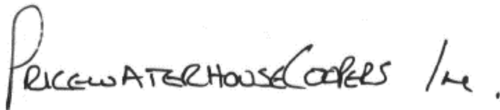
We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of MMI Group Limited for 38 years.



PricewaterhouseCoopers Inc.

Director: Andrew Taylor
Registered Auditor
Sunninghill
5 September 2017

DEFINITIONS

Adjusted net worth (ANW)
The adjusted net worth is the excess of assets over liabilities on the statutory basis, but where certain deductions for disregarded assets and impairments have been added back.

Advisory practice notes (APNs)
The Actuarial Society of South Africa (ASSA) issues APNs (which replaced the professional guidance notes) applicable to various areas of financial reporting and practice that require actuarial input. The APNs are available on the ASSA website (www.actuarialsociety.org.za).

Annual premium equivalent (APE)
The annual premium equivalent is a common life industry measure of new business sales. It is calculated as annualised new recurring premiums plus 10% of single premiums.

Basis changes
Basis and other changes are the result of changes in actuarial assumptions and methodologies, reviewed at the reporting date and used in the financial soundness valuation basis. These changes are reflected in the income statement as they occur.

Bonus stabilisation accounts (BSAs)
Bonus stabilisation accounts are the difference between the fund accounts of smoothed bonus business, or the discounted value of projected future benefit payments for with-profit annuity business, and the market values of the underlying assets. BSA is an actuarial term that constitutes either an asset or liability in accounting terms. The BSAs are included in contract holder liabilities.

Capital adequacy requirement (CAR)
The capital adequacy requirement is a minimum statutory capital requirement for South African life insurance companies that is prescribed in SAP104 – Calculation of the Value of the Assets, Liabilities and Capital Adequacy Requirement of Long-Term Insurers. CAR does not form part of the contract holder liabilities and is covered by the shareholder assets.

Carry positions
Carry positions consist of sale and repurchase of assets agreements containing the following instruments:

- Reverse repurchase agreements: financial assets consisting of financial instruments purchased with an agreement to sell these instruments at a fixed price at a later date.
- Repurchase agreements: financial liabilities consisting of financial instruments sold with an agreement to repurchase these instruments at a fixed price at a later date.

Cash-generating units
A cash-generating unit is the smallest identifiable group of assets that generates cash inflows largely independent of the cash flows from other assets or groups of assets.

Compulsory margins
Life insurance companies are required to hold compulsory margins in terms of the financial soundness valuation basis prescribed in SAP104 – Calculation of the Value of the Assets, Liabilities and Capital Adequacy Requirement of Long-Term Insurers. These margins are explicitly prescribed and held as a buffer to cover uncertainties with regard to the best-estimate assumptions used in the financial soundness valuation basis. These margins are held in the contract holder liabilities and released over time in the operating profit should experience be in line with these best-estimate assumptions.

Core headline earnings
Core headline earnings disclosed comprise operating profit and investment income on shareholder assets. It excludes net realised and fair value gains on financial assets and liabilities, investment variances and basis and other changes which can be volatile, certain non-recurring items, as well as the amortisation of intangible assets relating to business combinations as this is part of the cost of acquiring the business.

Cost of required capital
The cost of required capital is the difference between the amount of required capital and the present value of future releases of this capital, allowing for future net of tax investment returns expected to be earned on this capital.

Covered business
Covered business is defined as long-term insurance business recognised in the MMI group integrated report. This business covers individual smoothed bonus, linked and market-related business, reversionary bonus business, group smoothed bonus business, annuity business and other non-participating business written by the company.

Discretionary margins
In addition to compulsory margins, insurance companies may hold further discretionary margins where the statutory actuary believes that:

- the compulsory margins are insufficient for prudent reserving, or
- company practice or policy design justifies the deferral of profits.

Discretionary participation feature (DPF)
A discretionary participation feature is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- that are likely to be a significant portion of the total contractual benefits
- whose amount or timing is contractually at the discretion of the issuer and
- that are contractually based on:
  - the performance of a specified pool of contracts or a specified type of contract
  - the realised and / or unrealised investment returns on a specified pool of assets held by the issuer; or
  - the profit or loss of the company, fund or other entity that issues the contract.

Effective control
Effective control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities, generally accompanying an interest equivalent to more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the company controls another entity.

Effective exposure
The exposure of a derivative financial contract or instrument to the underlying asset by also taking delta (the ratio comparing the change in the price of the underlying asset to the corresponding change in the price of a derivative) into account where applicable.

Effective interest rate
The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument, or when appropriate a shorter period, to the net carrying amount of the financial asset or liability.

Effective interest rate method
The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant period.

Financial soundness valuation (FSV)
The financial soundness valuation basis is prescribed by SAP104 – Calculation of the Value of the Assets, Liabilities and Capital Adequacy Requirement of Long-Term Insurers – and uses best estimate assumptions regarding future experience together with compulsory and discretionary margins for prudence and deferral of profit emergence. For IFRS reporting purposes, this basis is used for the valuation of insurance contracts and investment contracts with discretionary participation features (DPF).

Fund account
The fund account is the retrospective accumulation of premiums, net of charges and benefit payments at the declared bonus rates or at the allocated rate of investment return.

New business profit margin
New business profit margin is defined as the value of new business expressed as a percentage of the present value of future premiums (PVP). New business profit margin is also expressed as a percentage of annual premium equivalent (APE).

Non-covered business
Non-covered business includes the directors' value of the investment management operations of the company.

Objective evidence of impairment
Objective evidence of impairment is related to the specific circumstances of each individual asset and can be the combined effect of several events. Objective evidence includes, but is not limited to:

- significant financial difficulty of the issuer or debtor
- a breach of contract, such as a default or delinquency in payment
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation
- the disappearance of an active market for that financial asset because of financial difficulties
- observable data that there is a measurable decrease in the estimated future cash flows from the asset since the initial recognition of the asset.

Open-ended instruments
The open-ended category includes financial instruments with no fixed maturity date as management is unable to provide a reliable estimate given the volatility of equity markets and policyholder behaviour.

Prescribed officers
Prescribed officers as referred to in the Companies Act, 71 of 2008, are defined as follows - despite not being a director of a particular company, a person is a prescribed officer of the company if that person:

- exercises general executive control over and management of the whole, or a significant portion, of the business and activities of the company, or
- regularly participates to a material degree in the exercise of general executive control over and management of the whole, or a significant portion, of the business and activities of the company.

The company does not consider any employee that is not a director to be a prescribed officer as the functions of general executive control over significant portions of the business are performed by the executive directors.

Present value of future premiums (PVP)
The present value of future premiums is the present value of future premiums in respect of new business using the risk discount rate. The future premiums are net of reinsurance and are based on best-estimate assumptions such as future premium growth, mortality and withdrawal experience.

DEFINITIONS
(continued)

Present value of in-force covered business (VIF)
The gross VIF is the discounted present value of expected future after-tax profits as determined on the statutory basis, in respect of covered business in force at the valuation date. The net VIF is the gross VIF less the cost of required capital. No account has been taken of dividend withholding tax.

Related party transactions – key management personnel
Key management personnel are those persons, including close members of their families, having authority and responsibility for planning, directing and controlling the activities of the company, directly or indirectly, including any director (whether executive or otherwise) of the company.

Reporting basis
Reporting basis is the basis on which the financial statements are prepared.

Required capital
Required capital includes any assets attributed to covered business over and above the amount required to back cover business liabilities whose distribution to shareholders is restricted.

Risk discount rate
The risk discount rate is the rate at which future expected profits are discounted when calculating the value of in-force business or the value of new business.

Significant influence
Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies.

Statutory basis
The statutory basis is the valuation basis and methodology used for statutory reporting purposes, as determined by the Financial Services Board in its board notice "Prescribed requirements for the calculation of the value of the assets, liabilities and capital adequacy requirement of long-term insurers" (or equivalent regulations in non-South African operations). These requirements are largely based on financial soundness valuation principles. A reconciliation of the statutory excess and the reporting excess is disclosed in the statement of actuarial values.

Unit linked investments
Unit linked investments consist of investments in collective investment schemes, private equity fund investments and other investments where the value is determined based on the value of the underlying investments.

Useful life
Useful life is the period over which an asset is expected to be available for use by the company.

Value of new business
The value of new business is the discounted present value of expected future statutory after-tax profits from new business at point of sale less the cost of required capital at risk. No allowance has been made for the impact of dividend withholding tax. Allowance is made for all expenses associated with underwriting, selling, marketing and administration incurred in the effort of obtaining new business.

STATEMENT OF ACTUARIAL VALUES OF ASSETS AND LIABILITIES

Published basis Rm	Notes	30 June 2017	30 June 2016
Total assets per company balance sheet	1	**381 222**	**381 506**
Total liabilities per company balance sheet	2	**364 222**	**364 392**
Liabilities under insurance contracts		96 613	97 749
Liabilities under investment contracts		244 213	242 508
Current and other liabilities		19 794	20 578
Unsecured subordinated debt	3	3 602	3 557
Excess of assets over liabilities		**17 000**	**17 114**

Statutory basis Rm	Notes	30 June 2017	30 June 2016
Total assets		**365 413**	**367 800**
Total liabilities	2	**349 917**	**351 545**
Actuarial value of policy liabilities		331 568	332 827
Current and other liabilities		18 349	18 718
Excess of assets over liabilities		**15 496**	**16 255**
Capital adequacy requirement (CAR)		5 714	5 351
Ratio of excess of assets over liabilities to CAR		2.7	3.0
Dividends approved by Board after 30 June		1 550	1 550
Excess of assets over liabilities after approved dividends		13 946	14 705
Ratio of excess of assets over liabilities to CAR after approved dividends		2.4	2.7

NOTES TO THE STATEMENT OF ACTUARIAL VALUES OF ASSETS AND LIABILITIES OF MMI GROUP LIMITED AS AT 30 JUNE 2017

1. VALUE OF ASSETS

The value of the assets on the published reporting basis is determined according to the accounting policies as set out on pages 29 - 51. Equity investments in subsidiaries are included in the balance sheet at fair value.

2. VALUE OF LIABILITIES

The liability valuation methodology and assumptions under the published reporting basis are set out in the accounting policies and in note 17 to the financial statements.

3. UNSECURED SUBORDINATED DEBT

The unsecured subordinated debt is not reflected as a liability when determining the excess of assets over liabilities on the statutory basis as it is regarded as capital for statutory purposes.

4. RECONCILIATION BETWEEN EXCESS OF ASSETS OVER LIABILITIES ON THE PUBLISHED REPORTING BASIS AND THE STATUTORY BASIS

Rm	Notes	30 June 2017	30 June 2016
Excess of assets over liabilities on the published reporting basis		**17 000**	**17 114**
Difference in policy liabilities (net of deferred tax impact)		455	871
Deferred acquisition costs and deferred revenue liabilities (net of deferred tax impact)		(1 232)	(1 251)
Excess of fair value over net asset value of subsidiaries		(2 468)	(2 062)
Impairment of subsidiaries on the statutory basis (intangibles and capital requirements)		(1 155)	(1 193)
Intangibles (net of deferred tax impact) and other inadmissible assets		(706)	(781)
Unsecured subordinated debt		3 602	3 557
Excess of assets over liabilities on the statutory basis	1	**15 496**	**16 255**

1. The reinsurance assets and liabilities netting off in reconciliation above amounted to R9 118m (June 2016: R7 266m). Reinsurance includes linked reinsurance contracts to the value of R7 403m (June 2016: R5 531m).

5. ANALYSIS OF CHANGE IN EXCESS OF ASSETS OVER LIABILITIES ON THE PUBLISHED REPORTING BASIS

Rm	30 June 2017	30 June 2016
Excess of assets over liabilities at end of the year	17 000	17 114
Excess of assets over liabilities at beginning of the year	17 114	16 969
Change in excess of assets over liabilities over the year	**(114)**	**145**

Rm	Notes	30 June 2017	30 June 2016
Operating profit (excluding basis changes)	5.1	2 187	2 048
Basis changes	5.2	(309)	(469)
Investment return on excess	5.3	867	1 001
Attributable earnings		**2 745**	**2 580**
Revaluation of investments in subsidiaries		(133)	244
Revaluation of owner occupied buildings to fair value		121	108
Adjustments to defined benefit pension funds		10	(2)
Revaluation of available-for-sale investments		-	(8)
Income tax relating to items that will not be reclassified		(28)	(21)
Movement in common control reserve		19	
Dividends paid		(2 848)	(2 756)
Change in excess of assets over liabilities		**(114)**	**145**

Notes:

5.1 Operating profit includes expected returns and capital releases on explicit discretionary margins. MMI Group Limited holds explicit discretionary margins (in addition to discretionary margins implicit in policy liabilities) that serve as a buffer against the impact of market fluctuations on the assets backing those fixed liabilities that cannot be perfectly matched and to provide temporary protection in case of a severe fall in the market value of assets backing smooth bonus business. Expected investment returns and a portion of the capital amount on these margins have been released to earnings in the 12 months ended 30 June 2017 in conjunction with management's regular review of the adequacy of these margins in line with the accounting policy.

5.2 The basis changes consist of the following items:

Rm	30 June 2017	30 June 2016
Economic assumptions[1]	(3)	(7)
Maintenance expense assumptions[2]	(17)	(642)
Mortality and morbidity assumptions[3]	234	590
Termination assumptions[4]	(602)	(146)
Methodology changes[5] and other items	79	(264)
Total	**(309)**	**(469)**

1. Economic assumption changes are transferred to the investment stabilisation account in accordance with accounting policies. The impact of the change to dividend withholding tax was not stabilised to the investment stabilisation account and amounted to negative R3m.
2. Maintenance expense assumptions have been revised based on the budgeted expenses for the year ending 30 June 2018.
3. Assumed mortality rates were weakened following recent experience investigations. The employee benefit income disability basis was strengthened resulting in a partially offsetting impact.
4. Allowance has been made for a strengthening of the termination basis on upper retail risk contracts following experience investigations.
5. Various modelling and methodology changes were made, including a revised allowance for future premium reviews on upper market risk business as well as changing the valuation of prospectively valued business to a yield-curve methodology.

5.3 Investment income of R867m (June 2016: R1 001m) includes dividends of R330m (30 June 2016: R473m) received from strategic subsidiaries.

6. BONUS STABILISATION ACCOUNTS

The levels of the policyholder bonus stabilisation accounts in the main portfolios have decreased during the 12 months ended 30 June 2017 due to unfavourable performance in investment markets. In considering whether any existing negative bonus stabilisation accounts can be recovered through the under-declaration of bonuses, the asset managers' outlook for the portfolios, expected future cash flows, policyholders' reasonable expectations, as well as the view on the board of directors' expected willingness to declare bonuses below actual investment returns over the next three years, were taken into account.

7. ALLOWANCE FOR EMBEDDED INVESTMENT DERIVATIVES

The statutory liabilities include allowance for embedded investment derivatives, which emanate mainly from guaranteed minimum maturity values and vested bonuses. The liabilities were quantified using a market consistent stochastic model and Monte Carlo simulation techniques in accordance with Actuarial Practice Note APN110 of the Actuarial Society of South Africa. The actuary must use the model to price specified contracts and disclose these prices as part of the statutory actuary's report in terms of APN103. These prices should aim to replicate market prices.

The following table sets out the prices (% of nominal) and implied volatilities produced by the model on the following put options on the FTSE/JSE Top40 index.

Maturity (years)	Strike	Price (% of nominal) June 2017	Implied volatility (%) June 2017	Price (% of nominal) June 2016	Implied volatility (%) June 2016
1	Spot	5.0	18.4	6.7	23.0
1	80% x spot	1.0	22.3	2.0	27.5
1	Forward*	6.8	17.4	8.5	21.9
5	Spot	7.0	22.6	8.4	25.4
5	1.04^5 x spot	12.9	21.4	14.4	23.9
5	Forward*	16.4	20.9	18.1	23.2
20	Spot	1.5	28.1	2.4	30.1
20	1.04^20 x spot	6.9	27.6	9.6	29.2
20	Forward*	29.1	27.8	29.1	28.0

* Forward = Spot x e^((risk-free interest rate for maturity at time T less expected dividend yield) x term)

The put price (% of nominal) and implied volatility on an underlying index constructed as 60% FTSE/JSE Top40 and 40% ALBI, with annual rebalancing to these weights, is shown below.

Maturity (years)	Strike	Put Price (% of nominal) June 2017	Implied volatility (%) June 2017	Put Price (% of nominal) June 2016	Implied volatility (%) June 2016
5	1.04^5 x spot	5.7	13.2	6.7	15.2

The price of a 20-year put option based on an interest rate with a strike equal to the present 5-year forward rate, which pays if the 5-year forward rate at the time of maturity (in 20 years) is lower than this strike, is shown below.

Maturity (years)	Strike	Price (% of nominal) June 2017	Price (% of nominal) June 2016
20	5-year forward rate in 20 years	0.32	0.40

The zero coupon yield curve used to calibrate the market consistent asset model is shown below. The yield curve was derived from mid swap rates at 30 June 2016.

Years	Yield June 2017 (%)	Yield June 2016 (%)
1	7.5	7.6
2	7.7	7.8
3	7.8	8.1
4	8.0	8.3
5	8.2	8.5
10	9.4	9.3
15	10.4	9.9
20	11.0	10.3
25	11.2	10.5
30	11.3	10.7
35	11.2	10.9
40	11.1	10.9

8. CAPITAL ADEQUACY REQUIREMENT

The capital adequacy requirement is necessary to provide a cushion against the impact of possible adverse deviations in future experience from that assumed in the financial soundness valuation.

The capital adequacy requirement, determined in accordance with the standard of actuarial practice SAP104 version 9 of the Actuarial Society of South Africa, was calculated as R5 714m (30 June 2016: R5 351m).

The excess of assets over liabilities on the statutory basis is sufficient to cover the capital adequacy requirement 2.7 times (30 June 2016: 3.0 times).

The ordinary capital adequacy requirement (OCAR) exceeded the termination capital adequacy requirement (TCAR) and thus the capital adequacy requirement has been based on the OCAR.

In accordance with Actuarial Practice Note APN110 of the Actuarial Society of South Africa, allowance has also been made in the capital adequacy requirement for the potential detrimental impact of minimum investment return guarantees.

In determining the investment resilience capital adequacy requirement, it was assumed that a decline of 30% in equity asset values, 15% in property asset values and a change in the market value of fixed-interest securities commensurate with a 25% decrease (30 June 2016: 25% increase) in fixed-interest yields would occur immediately.

The rating downgrade of the SA Government by S&P caused an increase in credit risk, which was offset by the changes made to SAP104. The OCAR includes in allowance for concentration risk.

Following the transfer of business from Metropolitan Life to MMI Group Limited, the Board is required, as per the conditions imposed by the court, to maintain differences in management action philosophies between the two companies' respective policyholders. Management actions are listed separately for each of the books below.

Ex-Momentum business

- Bonuses on the smoothed bonus business will be reduced by an average of 3.5% (8.3% at June 2016) per year relative to expected investment returns for three years.
- No investment CAR is held in respect of ring-fenced conventional with profit funds (ex-Southern and ex-Sage) where it is assumed that, following an adverse CAR event, terminal bonuses payable to policyholders will be reduced.
- Allowance is made for the release of a portion of the Investment Stabilisation Account to offset fee injections required on some portfolios following the CAR resilience stress.
- Allowance is made for the release of discretionary margins to reduce the impact of investment risk, concentration risk and pandemic risk.

Ex-Metropolitan business

- Bonuses will be reduced by approximately 5.9% (4.8% at 30 June 2016) on smoothed bonus business and conventional with-profit business over the next three years with the impact limited to the total possible under-declaration based on factors such as expected future returns and bonus declarations.
- Removal of non-vesting bonuses (including undeclared terminal bonuses), with the impact limited to be no more than 10% of policyholder funds of the affected products.
- Any actions not completely used as described above are used as required to reduce the component of the credit risk CAR which is included in the resilience CAR.
- The above actions (bonus under-declaration and bonus removal) are all assumed to be available to offset the impact of the credit risk CAR which is calculated independently of the resilience CAR. I.e. the resilience event is not assumed to have occurred when assessing the availability of any actions to offset this part of the credit risk.
- Allowance is made for the release of discretionary margins to reduce the impact of concentration risk.

The management actions described above include the management actions assumed in the calculation of the liabilities, i.e. the actions necessary to eliminate any current negative bonus stabilisation accounts, as well as the additional management actions assumed to be taken following the shock scenarios in the capital adequacy requirement calculation.

The impact of the additional management actions assumed in the capital adequacy requirement (CAR) is shown below:

R m	30 June 2017	30 June 2016
CAR before management actions	16 779	13 904
Value of management actions	(12 586)	(9 233)
Reduction in future bonuses	(5 890)	(6 011)
Removal of non-vested bonuses	(2 523)	(2 320)
Reduction in credit risk	(834)	(415)
Release of discretionary margins	(3 235)	(419)
Management actions on ring-fenced portfolios	(104)	(68)
Diversification impact on management actions	1 521	680
CAR after management actions	**5 714**	**5 351**

The MMI Group Limited board has approved the assumptions regarding management actions in the CAR calculation, and the statutory actuary is satisfied that these actions are likely to be taken if the adverse scenarios were to materialise.

DIRECTORS' REPORT

The directors take pleasure in presenting the audited financial statements of the company, for the year ended 30 June 2017.

NATURE OF ACTIVITIES
MMI Group Limited is a registered life insurance and financial services company that transacts in life, group schemes, employee benefits, health insurance products and administration services.

CORPORATE EVENTS
During the year, the FSB approved the transfer of the FNB Life book of business from the company to FirstRand Life Assurance Ltd. The company recognised a profit of R73 million relating to the sale which was effective from 1 October 2016.

PRESENTATION OF FINANCIAL STATEMENTS
The statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, as set out in these financial statements, have been prepared in accordance with International Financial Reporting Standards (IFRS), IFRS Interpretations Committee (IFRIC) interpretations issued and effective at the time of preparing these statements, the SAICA Financial Reporting Guides (as issued by the Accounting Practices Committee), Financial Pronouncements (as issued by the Financial Reporting Standards Committee) and the South African Companies Act, 71 of 2008 (the Companies Act). The accounting policies of the company have been applied consistently to all periods presented. The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates as well as the exercise of managerial judgement in the application of the company's accounting policies. Such judgement, assumptions and estimates are disclosed on page 52, including changes in estimates that are an integral part of the insurance business.

Segmental information
From 1 July 2015 the company embarked on a new segmental reporting view that is aligned with the client-centric goals of the company. The segmental report has been disclosed on this new internal structure and the prior periods have been restated. The new segmental reporting had no impact on the current or prior year reported earnings or headline earnings per share, or on the net asset value or net cash flow. Refer to segmental report for more details.

CORPORATE GOVERNANCE
The board has satisfied itself that appropriate principles of corporate governance were applied throughout the period under review.

The assessment of the application and implementation of King IV principles is ongoing. The results to date, show that the company's governance processes are well entrenched, and that the company is generally compliant with all the principles of King IV.

For a table disclosing all the principles of King IV, and how each has been applied, refer to the MMI group integrated report and to the King IV application register, which is available on the MMI website:
http://www.mmiholdings.co.za/en/about/governance

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS
As part of running a business, the company is party to legal proceedings and appropriate provisions are made when losses are expected to materialise. The company had no material capital commitments at 30 June 2017 other than what is disclosed in note 36.

RESULTS OF OPERATIONS
The operating results and the financial position of the company are reflected in the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows, segmental report and the notes thereto.

Earnings attributable to equity holders for the year under review were R2 709 million (2016: R2 547 million). Core headline earnings were R3 307 million (2016: R3 324 million) and core headline earnings per share 1 741 cents (2016: 1 749 cents). Refer to note 34 for a reconciliation of earnings to core headline earnings.

SUBSIDIARIES AND ASSOCIATES
Details of significant subsidiary companies and associates are contained in notes 5 and 6, as well as in Annexures A and B.

SHARE CAPITAL

Share issue

There were no changes in the authorised or issued share capital of MMI Group Ltd during the financial year.

Share options

The company has not issued any options on MMI Group Ltd shares. The company awards units to employees as part of cash-settled share-based schemes - refer to note 20 (c) for more detail.

MMI Group Ltd preference shares

The company has 50 000 non-redeemable, non-cumulative preference shares in issue. These shares are held by MMI Holdings Ltd. Refer to note 14.

SHAREHOLDER DIVIDEND

Ordinary share dividend

The following dividends were declared during the current year:

	2017 cents per share	**2016 cents per share**
Interim – March	665	563
Final – September	817	817
	1 482	1 380

On 6 September 2017 a final dividend of 817 cents per ordinary share was declared that resulted in an annual dividend of 1 482 cents per share. This final dividend was payable to MMI Holdings Limited on 30 September 2017.

SHAREHOLDERS

MMI Group Limited is a wholly owned subsidiary of MMI Holdings Limited.

DIRECTORATE, SECRETARY AND AUDITOR

The company had the following directors at 30 June 2017:

Mr M Njeke (chairman)	Independent non-executive
Mr L Von Zeuner (deputy chairman)	Independent non-executive
Mr N Kruger (chief executive officer)	Executive
Ms M Vilakazi	Executive
Mr F Truter	Independent non-executive
Mr S Jurisich	Independent non-executive
Ms F Jakoet	Independent non-executive

The following appointments and resignations took effect during the current year:

Mr J Burger (deputy chairman)	Resigned 22 November 2016

PricewaterhouseCoopers Inc. will continue in office as auditor in accordance with section 90(6) of the South African Companies Act, 2008. Ms M Chetty will continue in office as company secretary.

DIRECTORS' REPORT

(continued)

DIRECTORS' SHAREHOLDING
The aggregate direct and indirect holdings in MMI Holdings Ltd of the directors of the company at 30 June 2017 are set out below.

	Direct Beneficial '000	Indirect Beneficial '000	Total 2017 '000	Total 2016 '000
Listed				
Executive directors	64	6 276	6 340	6 340
Non-executive directors	56	1 375	1 431	1 431
	120	7 651	7 771	7 771

No material changes occurred between the reporting date and the approval of the financial statements.

SPECIAL RESOLUTIONS
At the annual general meeting of shareholders of the company held on 22 November 2016 the following special resolutions were approved:

- The board of directors was authorised to repurchase shares issued by the company, subject to the provisions of the Memorandum of Incorporation of the company.
- The fees for the members of the board of directors and other committee members were approved.

BORROWING POWERS
In terms of the company's Memorandum of Incorporation directors have unlimited borrowing powers (subject to section 45 of the Companies Act); however, FSB approval is required for any borrowings within the company.

EVENTS AFTER YEAR-END
No material events occurred between the reporting date and the date of approval of the annual financial statements.

STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	2017 Rm	2016 Rm	Notes
ASSETS			
Intangible assets	**2 817**	2 967	1
Owner-occupied properties	**1 851**	1 556	2
Property and equipment	**122**	117	3
Investment properties	**6 639**	6 670	4
Interest in subsidiary companies	**59 431**	53 174	5
Employee benefit assets	**408**	441	19
Financial instruments			
Securities designated at fair value through income	**262 800**	272 702	6.1
Investments in associates designated at fair value through income	**18 848**	13 969	6.2
Derivative financial instruments	**2 382**	1 841	6.3
Loans and receivables	**7 323**	6 339	7
Reinsurance contracts	**1 714**	1 735	8
Insurance and other receivables	**2 535**	2 705	10
Current income tax assets	**298**	321	23.1
Cash and cash equivalents	**14 054**	16 499	11
Non-current assets held for sale	**-**	470	22
Total assets	**381 222**	381 506	
EQUITY			
Equity attributable to owners of the parent	**16 500**	16 614	
Share capital	**1 041**	1 041	12
Other components of equity	**6 947**	6 898	13
Retained earnings	**8 512**	8 675	
Preference shares	**500**	500	14
Total equity	**17 000**	17 114	
LIABILITIES			
Insurance contract liabilities			
Long-term insurance contracts	**96 613**	97 749	15
Financial instruments			
Investment contracts	**244 213**	242 508	16
- with discretionary participation features (DPF)	**22 750**	23 581	
- designated at fair value through income	**221 463**	218 927	
Designated at fair value through income	**10 993**	10 808	18
Derivative financial instruments	**1 758**	2 040	6.3
Deferred income tax	**994**	1 420	9
Employee benefit obligations	**836**	948	20
Other payables	**8 815**	8 919	21
Total liabilities	**364 222**	364 392	
Total equity and liabilities	**381 222**	381 506	

INCOME STATEMENT

For the year ended 30 June 2017

	2017 Rm	2016 Rm	Notes
Insurance premiums	**21 052**	23 223	
Insurance premiums ceded to reinsurers	**(2 831)**	(3 815)	
Net insurance premiums	**18 221**	19 408	24
Fee income	**2 840**	3 449	25
Investment contracts	**2 350**	2 345	
Trust and fiduciary services	**243**	589	
Other fee income	**247**	515	
Investment income	**15 325**	14 214	26
Net realised and fair value gains	**128**	12 288	27
Net income	**36 514**	49 359	
Insurance benefits and claims	**21 266**	23 499	
Insurance claims recovered from reinsurers	**(2 123)**	(2 564)	
Net insurance benefits and claims	**19 143**	20 935	28
Change in actuarial liabilities and related reinsurance	**(1 946)**	(251)	
Change in insurance contract liabilities	**(970)**	953	15
Change in investment contracts with DPF liabilities	**(831)**	(1 062)	16
Change in reinsurance contracts	**(145)**	(142)	8
Fair value adjustments on investment contract liabilities	**5 845**	15 767	16
Depreciation, amortisation and impairment expenses	**401**	299	29
Employee benefit expenses	**2 740**	2 694	30
Sales remuneration	**3 175**	3 110	31
Other expenses	**2 058**	2 363	32
Expenses	**31 416**	44 917	
Results of operations	**5 098**	4 442	
Finance costs	**(783)**	(712)	33
Profit before tax	**4 315**	3 730	
Income tax expense	**(1 570)**	(1 150)	23.2
Earnings for year	**2 745**	2 580	
Attributable to:			
Owners of the parent	**2 709**	2 547	34
MMI Group Ltd preference shares	**36**	33	
	2 745	2 580	
Basic earnings per ordinary share (cents)	**1 426**	1 341	

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2017

	2017 Rm	2016 Rm	Notes
Earnings for the year	**2 745**	2 580	
Other comprehensive income, net of tax	**(11)**	321	
Items that may subsequently be reclassified to income	**(133)**	238	
Revaluation of subsidiaries	**(133)**	243	13
Revaluation of available-for-sale investments	**-**	(6)	13
Income tax relating to items that may be reclassified	**-**	1	13
Items that will not be reclassified to income	**122**	83	
Land and buildings revaluation	**121**	108	13
Change in non-distributable reserve	**19**	-	13
Remeasurements of post-employee benefit funds	**11**	(3)	13
Income tax relating to items that will not be reclassified	**(29)**	(22)	13
Total comprehensive income for year	**2 734**	2 901	
Total comprehensive income attributable to:			
Owners of the parent	**2 698**	2 868	
MMI Group Ltd preference shares	**36**	33	
	2 734	2 901	

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2017

	Share capital	Share premium	Other reserves	Retained earnings	Total attributable to owners of the	Preference shares	Total equity	Notes
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	
Balance at 1 July 2015	9	1 032	6 596	8 832	16 469	500	16 969	
Total comprehensive income	-	-	321	2 547	2 868	33	2 901	
Income statement	-	-	-	2 547	2 547	33	2 580	
Other comprehensive income	-	-	321	-	321	-	321	
Dividend paid	-	-	-	(2 723)	(2 723)	(33)	(2 756)	
Transfer to retained earnings	-	-	(19)	19	-	-	-	
Balance at 1 July 2016	**9**	**1 032**	**6 898**	**8 675**	**16 614**	**500**	**17 114**	
Total comprehensive income	**-**	**-**	**(11)**	**2 709**	**2 698**	**36**	**2 734**	
Income statement	**-**	**-**	**-**	**2 709**	**2 709**	**36**	**2 745**	
Other comprehensive income	**-**	**-**	**(11)**	**-**	**(11)**	**-**	**(11)**	
Dividend paid	**-**	**-**	**-**	**(2 812)**	**(2 812)**	**(36)**	**(2 848)**	
Transfer to retained earnings	**-**	**-**	**60**	**(60)**	**-**	**-**	**-**	13
Balance at 30 June 2017	**9**	**1 032**	**6 947**	**8 512**	**16 500**	**500**	**17 000**	

STATEMENT OF CASH FLOWS

For the year ended 30 June 2017

	2017 Rm	2016 Rm	Notes
Cash flow from operating activities			
Cash utilised in operations	**(5 715)**	(2 595)	35.1
Interest received	**10 886**	9 891	
Dividends received	**3 412**	3 439	
Income tax paid	**(2 002)**	(1 575)	35.2
Interest paid	**(783)**	(712)	35.3
Net cash in/(outflow) from operating activities	**5 798**	8 448	
Cash flow from investing activities			
Additional investment in subsidiary	**(9 016)**	(110)	
Disposal of subsidiary	**3 939**	-	
Purchase of owner-occupied properties	**(12)**	(16)	
Disposal of owner-occupied properties	**8**	-	
Purchase of investment properties	**(327)**	(403)	
Disposal of investment properties	**309**	172	
Purchase of property and equipment	**(66)**	(86)	
Disposal of property and equipment	**6**	45	
Purchase of intangible assets	**(329)**	(135)	
Disposal of intangible assets	**42**	-	
Net cash (out)/inflow from investing activities	**(5 446)**	(533)	
Cash flow from financing activities			
Increase / (Decrease) in financial liabilities at fair value through income	**(211)**	(1 759)	
Dividend paid to equity holders	**(2 550)**	(2 661)	
Preference share dividends paid	**(36)**	(33)	
Net cash (out)/inflow from financing activities	**(2 797)**	(4 453)	
Net cash flow	**(2 445)**	3 462	
Cash resources and funds on deposit at beginning	**16 499**	13 037	
Cash resources and funds on deposit at end	**14 054**	16 499	
Made up as follows:			
Cash and cash equivalents as per statement of financial position	**14 054**	16 499	11
	14 054	16 499	

BASIS OF PREPARATION OF THE STATEMENTS

The financial statements, as set out below, have been prepared in accordance with International Financial Reporting Standards (IFRS), IFRS Interpretations Committee (IFRIC) interpretations issued and effective at the time of preparing these statements, the SAICA Financial Reporting Guides (as issued by the Accounting Practices Committee), Financial Pronouncements (as issued by the Financial Reporting Standards Committee) and the Companies Act, 71 of 2008. These statements have been prepared on the historical cost basis, except for the following items which are carried at fair value or valued using another measurement basis:

Fair value

- owner-occupied and investment properties
- investment in associates designated at fair value through income
- financial assets designated at fair value through income, derivative financial assets and available-for-sale financial assets
- investment contract liabilities designated at fair value through income, financial liabilities designated at fair value through income and derivative financial liabilities.

Other measurement basis

- insurance contracts, investment contracts with DPF and reinsurance contracts valued using the financial soundness valuation basis as set out in SAP104 – Calculation of the Value of the Assets, Liabilities and Capital Adequacy Requirement of Long-Term Insurers
- employee benefit obligations measured using the projected unit credit method
- investments in associates measured using the equity method of accounting or carried at fair value
- non-current assets and liabilities held for sale measured at the lower of carrying value or fair value less cost to sell.

The principle accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the company's accounting policies. There are areas of complexity involving a higher degree of judgement and areas where assumptions and estimates are significant to the financial statements. These judgements, assumptions and estimates are disclosed in detail in the notes to the annual financial statements and in a summary on page 52.

Based on the accounting treatment of the reverse acquisition at the time of the merger between Momentum Group Limited and Metropolitan Holdings Limited, the MMI Holdings Limited financial statements represent the consolidated financial statements of MMI Group Limited.

The preparation of the company's results was supervised by Leon Basson CA (SA) and have been audited by PricewaterhouseCoopers Inc in compliance with the requirements of the Companies Act of South Africa.

Published standards, amendments and interpretations effective for the financial period ended 30 June 2017

Effective annual periods beginning on or after	Title
1 January 2016	IFRS 10 and IAS 28 Investment entities (Amendments) - Applying the consolidation exemption
1 January 2016	IFRS 11 (Amendments) - Accounting for an acquisition of an interest in a joint operation that constitutes a business
1 January 2016	IFRS 14 - Regulatory deferral accounts
1 January 2016	IAS 1 (Amendments) - Disclosure initiative
1 January 2016	IAS 16 and IAS 38 (Amendments) - Clarification of acceptable methods of depreciation and amortisation
1 January 2016	IAS 16 and IAS 41 (Amendments) - Agriculture: Bearer plants (Not applicable)
1 January 2016	IAS 27 (Amendment) - Equity method in separate financial statements
Annual improvements 2012-14 cycle	
1 January 2016	IFRS 5 - Non-current assets held for sale and discontinued operations
1 January 2016	IFRS 7 - Financial instruments: Disclosures
1 January 2016	IAS 19 - Employee benefits
1 January 2016	IAS 34 - Interim financial reporting

Standards, amendments to and interpretations of published standards that are not yet effective

Effective annual periods beginning on or after	Title
1 January 2017	IAS 7 (Amendment) - Cash flow statements disclosure initiative
1 January 2017	IAS 12 (Amendment) - Clarification of recognition of deferred tax assets for unrealised losses
1 January 2018	IFRS 15 - Revenue from contracts with customers
1 January 2018	IFRS 9 - Financial instruments
1 January 2018	IFRS 2 (Amendment) - Classification and measurement of share-based payment transactions
1 January 2018	IFRS 4 (Amendment) - two approaches provided regarding the implementation of IFRS 9
1 January 2018	IAS 40 - Transfers of investment property
1 January 2018	IFRIC 22 - Foreign currency transactions and advance consideration
1 January 2019	IFRS 16 - Leases
1 January 2019	IFRIC 23 - Uncertainty over income tax treatments
1 January 2021	IFRS 17 - Insurance contracts
Postponed (initially 1 January 2016)	IFRS 10 and IAS 28 (Amendments) - Sale or contribution of assets between an investor and its associate or joint venture
Annual improvements 2014-16 cycle	
1 January 2017	IFRS 1 - First-time adoption of IFRS
1 January 2017	IFRS 12 - Disclosure of interests in other entities
1 January 2017	IAS 28 - Investments in associates and joint ventures

Management is currently assessing the impact of these amendments and improvements but they are not expected to have a material impact on the company's financial statements.

CONSOLIDATION

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the company has control. The company controls an entity when the company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the company. They are deconsolidated from the date that control ceases. All material subsidiaries have financial years ending on 30 June and are consolidated to that date. Subsidiaries with financial year-ends other than 30 June are consolidated using audited or reviewed results (where necessary) for the relevant period ended 30 June. The accounting policies for subsidiaries are consistent, in all material respects, with the policies adopted by the company. Separate disclosure is made of non-controlling interests. When control is lost, any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in the income statement.

Acquisition of subsidiaries or businesses under common control

Common control is defined as a business combination in which all the combining entities (subsidiaries or businesses) are ultimately controlled by the same party both before and after the business combination, and control is not transitory. The cost of an acquisition of a subsidiary under common control is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of the exchange. On acquisition the carrying value of the assets and liabilities are not restated at fair value. The acquirer incorporates assets and liabilities at their pre-combination carry amounts. Any excess/deficit of the purchase price over the pre-combination carrying amounts of the subsidiary is adjusted directly to equity, in a separate common control reserve. Adjustments to achieve harmonization of accounting policies will be adjusted on consolidation at the holding company level. Under this approach comparatives are not restated.

Investments in subsidiaries designated at fair value through income

Investments in subsidiaries backing policyholder liabilities have been designated at fair value through income. The fair value movements are recorded in net realised and fair value gains in the income statement. Refer to the financial instruments section below for the initial and subsequent measurement and the treatment of transactional costs of financial assets designated at fair value through income.

Investments in subsidiaries classified as available-for-sale

Investments in subsidiaries that do not back policyholder liabilities have been classified as available-for-sale. The fair value movements of these investments in subsidiaries are recorded directly against other comprehensive income. Refer to the financial instruments section below for the initial and subsequent measurement and the treatment of transactional costs of financial assets classified as available-for-sale.

Investments in subsidiaries that will be disposed of in the near future

Investments in subsidiaries held exclusively with the view of disposal in the near future (12 months) are accounted for at the lower of fair value less the cost to sell and its carrying amount in terms of the requirements of IFRS 5.

Disposal of investments in subsidiaries

The disposal of investments in subsidiaries designated at fair value through income results in a zero profit or loss on disposal of subsidiary. When investments in subsidiaries classified as available-for-sale are sold, the cumulative amount that was accounted for against other comprehensive income is disclosed under net realised and fair value gains in the income statement in the year the investment is sold.

Transactions with non-controlling interest shareholders

Transactions with non-controlling interest shareholders are treated as transactions with equity participants of the company. Disposals to non-controlling interest shareholders result in gains and losses for the company that are recorded in equity. Any difference between any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recorded in equity.

Associates

Associates are all entities, including collective investment schemes, over which the company has significant influence but not control. The company's investment in associates includes goodwill, identified on acquisition, net of any accumulated impairment loss. The accounting policies for associates are consistent, in all material respects, with the policies adopted by the company.

Profits and losses resulting from transactions between group companies are recognised in the company's results to the extent of the company's unrelated interests in the associates. Gains and losses arising on the dilution of investments in associates are recognised in the income statement.

Measurement

Investments in associated companies, other than investments in collective investment schemes, are initially recognised at cost, including goodwill, and the carrying amount is increased or decreased with the company's proportionate share of post-acquisition profits or losses, using the equity method of accounting. Under this method, the company's share of the associate's post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition profit or loss and movements in other comprehensive income are adjusted against the carrying amount of the investments. The equity method is discontinued from the date that the company ceases to have significant influence over the associate. When significant influence is lost, any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in the income statement.

Investments in collective investment schemes where the company has significant influence are designated as investments at fair value through income and are not equity accounted where they back contract holder liabilities, based on the scope exemption in IAS 28 – Investments in associates for investment-linked insurance funds. Initial measurement is at fair value on trade date, with subsequent measurement at fair value based on quoted repurchase prices at the close of business on the last trading day on or before the reporting date. Fair value adjustments on collective investment schemes are recognised in the income statement. The related income from these schemes is recognised as interest or dividends received, as appropriate.

Impairment

Under the equity method, the carrying value is tested for impairment at reporting dates by comparing the recoverable amount with the carrying amount. When the company's share of losses in an associate equals or exceeds its interest in the associate, no further losses are recognised unless the company has incurred obligations or made payments on behalf of the associate. The company resumes equity accounting only after its share of the profits equals the share of losses not recognised.

FOREIGN CURRENCIES

Functional and presentation currency

The financial statements are presented in South African rand (the presentation currency), which is the functional currency of the company.

Transactions and balances

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing at the dates of the transactions, or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary financial assets and liabilities, measured at fair value through income, are recognised as part of their fair value gain or loss. Translation differences on non-monetary items classified as available-for-sale financial assets are included in the fair value reserve in other comprehensive income. Translation differences on monetary items classified as available-for-sale are recognised in the income statement when incurred.

Subsidiary undertakings

Foreign entities are entities of the company that have a functional currency different from the presentation currency. Assets and liabilities of these entities are translated into the presentation currency at the rates of exchange ruling at the reporting date. Income and expenditure are translated into the presentation currency at the average rate of exchange for the year.

Exchange differences arising from the translation of the net investment in foreign entities are recognised in the foreign currency translation reserve in other comprehensive income. On disposal, such exchange differences are recognised in the income statement as part of net realised and fair value gains.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

INTANGIBLE ASSETS

Goodwill

Recognition and measurement

All business combinations are accounted for by applying the acquisition method of accounting. The initial cost of a business combination is adjusted if the agreement provides for adjustments to the cost that are contingent on one or more future events.

At the acquisition date, goodwill represents the excess of the cost of the business combination over the interest acquired in the net fair value of the identifiable assets, liabilities and contingent liabilities. Subsequent to initial measurement, goodwill is carried at cost less accumulated impairment losses.

Goodwill on acquisition of subsidiaries is included in intangible assets whereas goodwill on acquisition of associates is included in investment in associates.

When the interest acquired in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the difference is recognised directly in the income statement.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Impairment

At the acquisition date, goodwill acquired in a business combination is allocated to cash-generating units that are expected to benefit from the synergies of the combination in which the goodwill arose. Cash-generating units, to which goodwill has been allocated, are assessed annually for impairment or more frequently if events or changes in circumstances indicate a potential impairment. An impairment loss is recognised whenever the carrying amount of goodwill exceeds its recoverable amount, being the higher of value in use and the fair value less costs to sell. Impairment losses on goodwill are not reversed.

Value of in-force business acquired

On acquisition of a portfolio of insurance or investment with DPF contracts, the company recognises an intangible asset representing the value of in-force business acquired (VOBA). VOBA represents the present value of future pre-tax profits embedded in the acquired insurance or investment with DPF contract business. The VOBA is recognised gross of tax, with the deferred tax liability accounted for separately on the statement of financial position.

Measurement

The fair value calculation of VOBA on acquisition is based on actuarial principles that take into account future premium and fee income, claim outgo, mortality, morbidity and persistency probabilities together with future costs and investment returns on the underlying assets. The profits are discounted at a rate of return allowing for the risk of uncertainty of the future cash flows. This calculation is particularly sensitive to the assumptions regarding discount rate, future investment returns and the rate at which policies discontinue.

The asset is subsequently amortised over the expected life of the contracts as the profits of the related contracts emerge.

Impairment

VOBA is reviewed for impairment losses through the liability adequacy test and written down for impairment if necessary.

Customer relationships

An intangible asset is recognised when rights can be identified separately and measured reliably and it is probable that the cost will be recovered.

Measurement

The asset represents the company's right to benefit from the above services and is amortised on a straight-line basis over the period in which the company expects to recognise the related revenue, which is between three and ten years.

Impairment

The right is reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the carrying amount of the asset exceeds its recoverable amount.

Deferred acquisition costs (DAC)

Incremental costs that are directly attributable to securing rights to receive fees for asset management services sold with investment contracts are recognised as an asset if they can be identified separately and measured reliably, and if it is probable that they will be recovered. The asset represents the contractual right to benefit from receiving fees for providing investment management services, and is amortised over the expected life of the contract, as a constant percentage of expected gross profit margins (including investment income) arising from the contract. The pattern of expected profit margins is based on historical and expected future experience and is updated at the end of each accounting period.

Impairment

An impairment test is conducted annually at reporting date on the DAC balance to ensure that the amount will be recovered from future revenue generated by the applicable remaining investment management contracts. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount.

Computer software

Recognition and measurement

Acquired computer software

Acquired computer software licences are capitalised on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortised on the basis of an expected *useful life* of 3 to 10 years, which is assessed annually, using the straight-line method.

Internally developed computer software

Costs directly associated with developing software for internal use are capitalised if the completion of the software development is technically feasible, the company has the intent and ability to complete the development and use the asset, the asset can be reliably measured and will generate future economic benefits. Directly associated costs include employee costs of the development team and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised over their useful lives, up to 10 years, using the straight-line method.

Costs associated with research or maintaining computer software programmes are recognised as an expense as incurred.

Impairment

Computer software not ready for use is tested for impairment annually. Computer software in use is reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, the latter being the higher of the fair value less cost to sell and the value in use.

OWNER-OCCUPIED PROPERTIES

Owner-occupied properties are held for use in the supply of services or for administrative purposes. Where the company occupies a significant portion of the property, it is classified as an owner-occupied property.

Measurement

Owner-occupied properties are stated at revalued amounts, being fair value reflective of market conditions at the reporting date.

Fair value is determined using discounted cash flow techniques which present value the net rental income, discounted for the different types of properties at the market rates applicable at the reporting date. Significant properties are valued externally by an independent valuator, at least in a three-year cycle, to confirm the fair value of the portfolio.

Increases in the carrying amount arising on revaluation of buildings are credited to a land and building revaluation reserve in other comprehensive income. Decreases that offset previous increases in respect of the same asset are charged against the revaluation reserve, and all other decreases are charged to the income statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation

Owner-occupied property buildings are depreciated on a straight-line basis, over 50 years, to allocate their revalued amounts less their residual values over their estimated useful lives. Property and equipment related to the buildings are depreciated over 5 to 20 years. Land is not depreciated. The residual values and useful lives are reviewed at each reporting date and adjusted if appropriate.

Accumulated depreciation relating to these properties is eliminated against the gross carrying amount of the properties and the net amount is restated to the revalued amount. Subsequent depreciation charges are adjusted based on the revalued amount for each property. Any difference between the depreciation charge on the revalued amount and the amount which would have been charged under historic cost is transferred, net of any related deferred tax, between the revaluation reserve and retained earnings as the property is utilised.

Gains and losses

When owner-occupied properties are sold, the amounts included in the land and buildings revaluation reserve are transferred to retained earnings.

PROPERTY AND EQUIPMENT

Improvements to leasehold properties

Measurement

Improvements to leasehold properties are measured at cost and depreciated over the shorter of their respective lease periods and estimated useful lives.

Impairment

Improvements to leasehold properties are reviewed for impairment losses whenever events or changes in circumstances indicate the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the cost of the asset capitalised to date exceeds the recoverable amount.

Equipment

Measurement

Equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation

All assets are depreciated using the straight-line method to allocate their cost less their residual values over their estimated useful lives, as follows:

Furniture and fittings	3-5 years
Computer equipment	3 years
Motor vehicles	5 years

The residual values and useful lives of the assets are reviewed at each reporting date and adjusted if appropriate.

Gains and losses

Gains and losses on disposal of assets are determined by comparing proceeds with carrying amounts and are included in the income statement in the year of disposal.

Impairment

Equipment is reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised immediately for the amount by which the carrying amount of the asset exceeds its recoverable amount, the latter being the higher of the fair value less cost to sell of the asset and its value in use.

INVESTMENT PROPERTIES

Completed properties

Investment properties are held to earn rentals or for capital appreciation or both and are not significantly occupied by the company.

Measurement

Investment properties comprise freehold land and buildings and are carried at fair value, reflective of market conditions at the reporting date, less the related cumulative accelerated rental income receivable. Fair value is determined as being the present value of net rental income, discounted for the different types of properties at the market rates applicable at the reporting date. Significant properties are valued externally by an independent valuator on an annual basis to confirm the fair value of the portfolio. The accelerated rental income receivable represents the cumulative difference between rental income on a straight-line basis and the accrual basis (refer to rental income accounting policy).

Subsequent expenditure is charged to the asset's carrying value only when it is probable that the future economic benefits associated with the item will flow to the company and the cost can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they were incurred.

Investment properties that are being redeveloped for continuing use as investment property, or for which the market has become less active, continue to be measured at fair value.

Undeveloped land is valued at fair value based on recent market activity in the area.

Transfers to and from investment properties

If an investment property becomes owner-occupied, it is reclassified under owner-occupied properties, and its fair value at the date of reclassification becomes its cost for subsequent accounting purposes, and vice versa.

Properties held under operating leases

Properties held under operating leases are classified as investment properties as long as they are held for long-term rental yields and not occupied by the company. The initial cost of these properties is the lower of the fair value of the property and the present value of the minimum lease payments. These properties are carried at fair value after initial recognition.

Gains and losses

Unrealised gains or losses arising on the valuation or disposal of investment properties are included in the income statement in net realised and fair value gains and losses. These fair value gains and losses are adjusted for any double counting arising from the recognition of lease income on the straight line basis compared to the accrual basis normally assumed in the fair value determination.

FINANCIAL ASSETS

Classification

The company classifies its financial assets into the following categories:

- financial assets at fair value through income, including derivative financial instruments
- loans and receivables
- held-to-maturity financial assets
- available-for-sale financial assets.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through income

This category has two sub-categories: financial assets held for trading and those designated at fair value through income at inception.

A financial asset is classified as held for trading at inception if it is acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading, unless they are designated as hedges.

Financial assets are designated at fair value through income at inception if they are:

- held to match insurance and investment contract liabilities that are linked to the changes in fair value of these assets, thereby eliminating or significantly reducing an accounting mismatch that would otherwise arise from measuring assets and liabilities or recognising the gains and losses on them on different bases
- managed, with their performance being evaluated on a fair value basis, in accordance with portfolio mandates that specify the investment strategy and
- significant embedded derivatives that clearly require bifurcation.

These assets are initially recognised at fair value and transaction costs directly attributable to acquiring them are expensed in the income statement in net realised and fair value gains. Subsequent fair value adjustments are recognised in the income statement.

- **Loans and receivables**

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified as held for trading and those designated at fair value through income or available-for-sale assets.

- **Held-to-maturity financial assets**

  Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities – other than those that meet the definition of loans and receivables – that management of the company has the positive intention and ability to hold to maturity.

- **Available-for-sale financial assets**

  Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

Recognition and measurement
A financial asset or financial liability is recognised in the statement of financial position when, and only when, the company becomes a party to the contractual provisions of the instrument.

Purchases and sales of financial instruments are recognised on trade date, being the date on which the company commits to purchase or sell the financial instrument. Financial instruments are initially recognised at fair value plus, in the case of a financial instrument not at fair value through income, transaction costs that are directly attributable to the acquisition of the asset. Financial instruments at fair value through income and available-for-sale assets are subsequently carried at fair value. Loans and receivables and held-to-maturity assets are recognised initially at fair value and subsequently carried at amortised cost, using the effective interest rate method less provision for impairment.

The fair value of financial assets traded in active markets is based on quoted market prices at the reporting date. Collective investments are valued at their repurchase price. For unlisted equity and debt securities, unquoted unit-linked investments and financial assets where the market is not active, the company establishes fair value by using valuation techniques. These include discounted cash flow analysis and adjusted price earnings ratios allowing for the credit risk of the counterparty. Unquoted securities are valued at the end of every reporting period.

Impairment of financial assets

- **Financial assets carried at fair value – available-for-sale**

  Equity investments

  At each reporting date the company assesses whether there is objective evidence that an available-for-sale financial asset is impaired, including a significant or prolonged decline in the fair value of the security below its cost in the case of equity investments classified as available-for-sale. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in profit and loss – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments recognised in the income statement are not subsequently reversed in the income statement.

  Debt securities

  For debt securities, the company uses the criteria referred to under loans and receivables below. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment is reversed through the income statement.

- **Loans and receivables**

  A provision for loans and receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the assets concerned. The amount of the provision is the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the original effective interest rate. The movement in the current year provision is recognised in the income statement.

  If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the income statement.

  Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

Derecognition of financial assets
Financial assets are derecognised when the right to receive cash flows from the financial asset has expired or has been transferred, and the company has transferred substantially all risks and rewards of ownership. The company also derecognises a financial asset when the company retains the contractual rights of the assets but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and benefits associated with the asset. Financial liabilities are derecognised when they are extinguished, ie when the obligation specified in the contract is discharged, cancelled or expires.

Realised and unrealised gains and losses

Financial assets at fair value through income

Realised and unrealised gains and losses arising from changes in the value of financial instruments at fair value through income are included in the income statement in the period in which they arise. Interest and dividend income arising on financial assets are disclosed separately under investment income in the income statement.

Available-for-sale assets

Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income. When these assets are sold or impaired, the accumulated fair value adjustments are included in the income statement as net realised and fair value gains or losses. Interest and dividend income arising on these assets are recognised and disclosed separately under investment income in the income statement.

Changes in the fair value of equity securities denominated in a foreign currency and classified as available-for-sale are recognised in other comprehensive income. Changes in the fair value of debt securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. The translation differences resulting from changes in the amortised cost are recognised in the income statement; translation differences resulting from other changes are recognised in other comprehensive income.

Offsetting

Financial assets and liabilities are set off and the net balance reported in the statement of financial position where there is a legally enforceable right to set off, where it is the intention to settle on a net basis or to realise the asset and settle the liability simultaneously, where the maturity date for the financial asset and liability is the same, and where the financial asset and liability are denominated in the same currency.

Scrip lending

The equities or bonds on loan are reflected in the statement of financial position of the company at yearend. Scrip lending fees received are included under fee income. The company continues to recognise the related income on the equities and bonds on loan. Collateral held is not recognised in the financial statements unless the risks and rewards relating to the asset has passed to the company. If it is sold, the gain or loss is included in the income statement.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (that is, the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (that is, without modification or repackaging) or based on a valuation technique whose variables include only observable market data.

When unobservable market data has an impact on the valuation of derivatives, the entire initial change in fair value indicated by the valuation model is not recognised immediately in the income statement but over the life of the transaction on an appropriate basis, or when the inputs become observable, or when the derivative matures or is closed out.

The subsequent fair value of exchange-traded derivatives is based on a bid-ask spread while the value of over-the-counter derivatives is determined by using valuation techniques that incorporate all factors that market participants would consider in setting the price.

Embedded derivatives are separated and fair valued through income when they are not closely related to their host contracts and meet the definition of a derivative, or where the host contract is not carried at fair value.

The company designates certain derivatives as either: (i) hedges of the fair value of recognised assets or liabilities or of a firm commitment (fair value hedges); or (ii) hedges of highly probable forecast transactions (cash flow hedges).

The company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedging transactions. The company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are expected to be and have been highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps is recognised in the income statement within interest income or finance costs. Both effective changes in fair value of currency futures and the gain or loss relating to the ineffective portion are recognised in the income statement within net realised and fair value gains and losses.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used, is amortised to the income statement over the period to maturity.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of all such derivative instruments are recognised immediately in the income statement within net realised and fair value gains and losses.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are carried in the statement of financial position at cost, which approximates fair value. Cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term, highly liquid investments with original maturities of three months or less and are subject to an insignificant risk of change in value. Bank balances held to meet short-term cash commitments are included in funds on deposit and other money market instruments with a maturity of three months or less. Operating bank balances are included in bank and other cash balances.

SHARE CAPITAL

Share capital is classified as equity where the company has no obligation to deliver cash or other assets to shareholders. Ordinary shares with discretionary dividends are classified as equity. Preference shares issued by the company are classified as equity when there is no obligation to transfer cash or other assets to the preference shareholders. The dividends on these preference shares are recognised in the statement of changes in equity.

Issue costs

Incremental external costs directly attributable to the issue of new shares are recognised in equity as a deduction, net of tax, from the proceeds.

DIVIDENDS PAID

Dividends paid to shareholders of the company are recognised on declaration date.

LONG-TERM INSURANCE AND INVESTMENT CONTRACTS

The contracts issued by the company transfer insurance risk, financial risk or both. As a result of the different risks transferred by contracts, contracts are separated into investment and insurance contracts for the purposes of valuation and profit recogition. Insurance contracts are those contracts that transfer significant insurance risk to the company, whereas investment contracts transfer financial risk.

The classification of contracts is performed at the inception of each contract. The classification of the contract at inception remains the classification of the contract for the remainder of its lifetime. There is one exception to this principle:

- If the terms of an investment contract change significantly, the original contract is derecognised and a new contract is recognised with the new classification.

Classification of contracts

Insurance contracts

Insurance risk is risk, other than financial risk, transferred from the holder of a contract to the issuer. Insurance risk is deemed significant if an insured event could cause an insurer to pay benefits (net of accumulated income and account balances) on the occurrence of an insured event that are significantly more than the benefits payable if the insured event did not occur.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided that in the case of a non-financial variable, the variable is not specific to a party to the contract.

Insurance contracts are those under which the company accepts significant insurance risk from another party (contract holder) by agreeing to pay compensation if a specified uncertain future event (the insured event) adversely affects the contract holder.

Insurance contracts may transfer financial risk as well as insurance risk. However, in all instances where significant insurance risk is transferred, the contract is classified as an insurance contract.

Investment contracts

Investment contracts are those where only financial risk is transferred.

Contracts with discretionary participation features

The company issues insurance and investment contracts containing discretionary participation features (DPF). These contracts are smoothed bonus and conventional with-profit business. All contracts with DPF are accounted for in the same manner as insurance contracts. Where a contract has both investment with DPF and investment components, the policy is classified as investment with DPF.

Insurance contracts and investment contracts with DPF

Measurement

The liabilities relating to insurance contracts and investment contracts with DPF are measured in accordance with the financial soundness valuation (FSV) basis as set out in SAP104 – Calculation of the Value of the Assets, Liabilities and Capital Adequacy Requirement of Long-Term Insurers. The FSV basis is based on the best estimate assumptions regarding future experience plus compulsory margins and additional discretionary margins for prudence and deferral of profit emergence.

Assumptions used in the valuation basis are reviewed at least annually and any non-economic changes in estimates are reflected in the income statement as they occur. Economic changes in estimate are stabilised as they occur and are reflected in the income statement according to a specified release pattern.

The valuation bases used for the major classes of contract liabilities before the addition of the margins described under the heading of compulsory and discretionary margins below, were as follows:

- For group smoothed bonus business, the liability is taken as the sum of the fund accounts, being the retrospective accumulation of premiums net of charges and benefit payments at the declared bonus rates.
- For individual smoothed bonus business, the liability is taken as the sum of the fund accounts less the present value of future charges not required for risk benefits and expenses.
- For with-profit annuity business, the liability is taken as the discounted value of projected future benefit payments and expenses. Future bonuses are provided for at bonus rates supported by the assumed future investment return.
- For the above three classes of business, bonus stabilisation accounts (BSAs) are held in addition to the liabilities described above. In the case of smoothed bonus business, the BSA is equal to the difference between the market value of the underlying assets and the fund accounts. In the case of with-profit annuity business the BSA is equal to the difference between the market value of the underlying assets and the discounted value of projected future benefit payments and expenses. BSAs are included in contract holder liabilities.
- For conventional with-profit business, the liability is the present value of benefits less premiums, where the level of benefits is set to that supportable by the asset share.
- For individual market-related business, the liability is taken as the fair value of the underlying assets less the present value of future charges not required for risk benefits and expenses.
- For conventional non-profit business, including non-profit annuities and group PHI business, the liability is taken as the difference between the discounted value of future expenses and benefit payments and the discounted value of future premium receipts.

- A number of contracts contain embedded derivatives in the form of financial options and investment guarantees. Liabilities in respect of these derivatives are fair valued in accordance with the guidelines in APN110 – Allowance for embedded investment derivatives. Stochastic models are used to determine a best estimate of the time value as well as the intrinsic value of these derivatives.
- Provision is made for the estimated cost of IBNR claims for all relevant classes of business as at the reporting date. IBNR provisions are calculated using run-off triangle methods or else as percentages of premium, based on historical experience. Outstanding reported claims are disclosed in other payables.

Compulsory and discretionary margins

In the valuation of liabilities, provision is made for the explicit compulsory margins as required by SAP104 – Calculation of the Value of the Assets, Liabilities and Capital Adequacy Requirement of Long-Term Insurers. Discretionary margins are held in addition to the compulsory margins. These discretionary margins are used to ensure that profit and risk margins in the premiums are not capitalised prematurely so that profits are recognised in line with product design and in line with the risks borne by the company.

The main discretionary margins utilised in the valuation are as follows:

- Additional bonus stabilisation accounts are held for the benefit of shareholders to provide an additional layer of protection under extreme market conditions against the risk of removal of non-vested bonuses caused by fluctuations in the values of assets backing smoothed bonus liabilities. This liability is in addition to the policyholder bonus stabilisation account described elsewhere, and is not distributed as bonuses to policyholders under normal market conditions.
- For certain books of business which are ring-fenced per historic merger or take-over arrangements, appropriate liabilities are held to ensure appropriate capitalisation of future profits in line with the terms of the related agreements.
- An additional margin is held to reduce the risk of future losses caused by the impact of market fluctuations on capitalised fees and on the assets backing guaranteed liabilities. This liability is built up retrospectively and utilised if adverse market conditions cause a reduction in the capitalised value of fees or in the value of assets backing guaranteed liabilities.
- Additional prospective margins are held in respect of premium and decrement assumptions and asset-related fees on certain product lines to avoid the premature recognition of profits that may give rise to future losses if claims experience turns out to be worse than expected. This allows profits to be recognised in the period in which the risks are borne by the company.
- For certain books of business, future charges arising from the surrender of smoothed bonus individual policies are not recognised until surrender occurs.
- Liabilities for immediate annuities are set equal to the present value of expected future annuity payments and expenses, discounted using an appropriate market related yield curve as at the reporting date. The yield curve is based on risk free securities (either fixed or CPI-linked, depending on the nature of the corresponding liability), adjusted for credit and liquidity spreads of the assets actually held in the portfolio. Implicit allowance is made for expected credit losses to avoid a reduction in liabilities caused by capitalisation of credit spreads.

Embedded derivatives

The company does not separately measure embedded derivatives that meet the definition of an insurance contract and the entire contract is measured as an insurance contract. All other embedded derivatives are separated and carried at fair value, in accordance with APN110, if they are not closely related to the host insurance contract but meet the definition of a derivative. Embedded derivatives that are separated from the host contract are carried at fair value through income.

Liability adequacy test

The FSV methodology meets the requirements of the liability adequacy test in terms of IFRS 4 – Insurance contracts. However, at each reporting date the adequacy of the insurance liabilities is assessed to confirm that, in aggregate the carrying amount of the insurance liabilities, measured in accordance with the FSV basis, less any related intangible asset and present value of business acquired (VOBA), is adequate in relation to the best-estimate future cash flows liabilities. Best-estimate liabilities are based on best-estimate assumptions in accordance with the FSV basis, but excluding *compulsory margins* as described in SAP104 as well as all *discretionary margins*. If the liabilities prove to be inadequate, any VOBA or other related intangible asset is written off and any further deficiency is recognised in the income statement.

Reinsurance contracts held

Contracts entered into by the company with reinsurers under which the company is compensated for losses on one or more contracts issued by the company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. The benefits to which the company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified as receivables), as well as longer term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each contract.

Reinsurance liabilities are amounts payable to registered reinsurers, in terms of a reinsurance agreement and include premiums payable for reinsurance contracts which are recognised as an expense when due. These premiums are included in other payables.

Impairment of reinsurance assets

If there is objective evidence that the reinsurance asset is impaired, the company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement. The impairment loss is calculated using the same method adopted for loans and receivables.

Insurance premiums

Insurance premiums and annuity considerations receivable from insurance contracts and investment contracts with DPF are recognised as revenue in the income statement, gross of commission and reinsurance premiums and excluding taxes and levies. Where annual premiums are paid in instalments, the outstanding balance of these premiums is recognised when due. Receivables arising from insurance and investment contracts with DPF are recognised under insurance and other receivables.

Reinsurance premiums

Reinsurance premiums are recognised when due for payment.

Insurance benefits and claims

Insurance benefits and claims relating to insurance contracts and investment contracts with DPF include death, disability, maturity, annuity and surrender payments and are recognised in the income statement based on the estimated liability for compensation owed to the contract holder. Death, disability and surrender claims are recognised when incurred. These claims also include claim events that occurred before the reporting date but have not been fully processed. Claims in the process of settlement are recognised in other payables in the statement of financial position. Maturity and annuity claims are recognised when they are due for payment. Outstanding claims are recognised in accounts payable. Contingency policy bonuses are included in claims to the income statement.

Reinsurance recoveries

Reinsurance recoveries are accounted for in the same period as the related claim.

Acquisition costs

Acquisition costs, disclosed as sales remuneration, consist of commission payable on insurance contracts and investment contracts with DPF and expenses directly related thereto (including bonuses payable to sales staff and the company's contribution to their retirement and medical aid funds). These costs are expensed when incurred. The FSV basis makes implicit allowance for the recoupment of acquisition costs; therefore, no explicit deferred acquisition cost asset is recognised in the statement of financial position for contracts valued on this basis.

Investment contracts

The company designates investment contract liabilities at fair value through income upon initial recognition as their fair value is dependent on the fair value of underlying financial assets, derivatives and/or investment property designated at inception as at fair value through income. The company designates these investment contracts to be measured at fair value through income because it eliminates or significantly reduces a measurement or recognition inconsistency, referred to as an accounting mismatch, that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Measurement

The company issues investment contracts without fixed terms and contracts with fixed terms and guaranteed terms.

Investment contracts without fixed terms are financial liabilities whose fair value is dependent on the fair value of underlying financial asset portfolios that can include derivatives and are designated at inception as at fair value through income.

For investment contracts, other than those with fixed and guaranteed terms, fair value is determined using the current unit values that reflect the fair value of the financial assets contained within the company's unitised investment funds linked to the related financial liability, multiplied by the number of units attributed to the contract holders at the valuation date.

A financial liability is recognised in the statement of financial position when, and only when, the company becomes party to the contractual provisions of the instrument. Financial liabilities are initially recognised at fair value.

The fair value of financial liabilities is never less than the amount payable on surrender, discounted for the required notice period, where applicable.

For investment contracts with fixed and guaranteed terms (guaranteed endowments and term certain annuities), valuation techniques are used to establish the fair value at inception and at each reporting date. The valuation technique model values the liabilities as the present value of the maturity values, using appropriate market-related yields to maturity. If liabilities calculated in this manner fall short of the single premium paid at inception of the policy, the liability is increased to the level of the single premium, to ensure that no profit is recognised at inception. This deferred profit liability is recognised in profit or loss over the life of the contract based on factors that a market participant would consider, including the passing of time. Valuation techniques also include discounted cash flow analysis using current market rates of interest and reference to other instruments that are substantially the same.

For investment contracts where investment management services are rendered and the contracts provide for minimum investment return guarantees, provision is made for the fair value of the embedded option within the investment contract liability. The valuation methodology is the same as the methodology applied to investment guarantees on insurance contracts.

Deferred revenue liability

A deferred revenue liability (DRL) is recognised in respect of fees paid at inception of the contract by the policyholder that are directly attributable to a contract. The DRL is then released to revenue as the investment management services are provided, over the expected duration of the contract, as a constant percentage of expected gross profit margins (including investment income) arising from the contract. The pattern of expected profit margins is based on historical and expected future experience and is updated at the end of each accounting period. The resulting change to the carrying value of the DRL is recognised in revenue.

Deferred acquisition costs
Refer to the intangible assets section of accounting policies.

Amounts received and claims incurred
Premiums received under investment contracts are recorded as deposits to investment contract liabilities and claims incurred are recorded as deductions from investment contract liabilities.

FINANCIAL LIABILITIES
Recognition and measurement

The company classifies its financial liabilities into the following categories:

- financial liabilities at fair value through income
- financial liabilities at amortised cost

The classification depends on the purpose for which the financial liabilities were acquired. Management determines the classification of its financial liabilities at initial recognition.

- **Financial liabilities at fair value through income**

  This category has two sub-categories: financial liabilities held for trading and those designated at fair value through income at inception.

  A financial liability is classified as held for trading at inception if it is acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading, unless they are designated as hedges.

  Financial liabilities are designated at fair value through income at inception if they are:

  - eliminating or significantly reducing an accounting mismatch that would otherwise arise from measuring assets and liabilities or recognising the gains and losses on them on different bases;
  - managed, with their performance being evaluated on a fair value basis; or
  - significant embedded derivatives that clearly require bifurcation.

A financial liability is recognised in the statement of financial position when, and only when, the company becomes a party to the contractual provisions of the instrument.

Issues and settlements of financial liabilities are recognised on trade date, being the date on which the company commits to issuing or settling the financial liabilities.

The fair value of financial liabilities quoted in active markets is based on current market prices. Alternatively, where an active market does not exist, fair value is derived from cash flow models or other appropriate valuation models allowing for the company's own credit risk. These include the use of arm’s length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants, making maximum use of market input and relying as little as possible on entity-specific input.

Financial liabilities are derecognised when they are extinguished, ie when the obligation specified in the contract is discharged, cancelled or expires.

Financial liabilities designated at fair value through income

Financial liabilities designated at fair value through income, such as callable notes which are listed on the JSE interest rate market and carry positions (refer below), are recognised initially at fair value, with transaction costs being expensed in the income statement, and are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the value of financial liabilities at fair value through income are included in the income statement in the period in which they arise. Interest on the callable notes and carry positions are disclosed separately as finance costs using the effective interest rate method.

Carry positions

Carry positions consist of sale and repurchase of assets agreements. These agreements contain the following instruments:

- Repurchase agreements: financial liabilities consisting of financial instruments sold with an agreement to repurchase these instruments at a fixed price at a later date. These financial liabilities are classified as financial liabilities designated at fair value though income.
- Reverse repurchase agreements: financial assets consisting of financial instruments purchased with an agreement to sell these instruments at a fixed price at a later date. These financial assets are classified as financial instruments designated at fair value through income.

Where financial instruments are sold subject to a commitment to repurchase them, the financial instrument is not derecognised and remains in the statement of financial position and is valued according to the company's accounting policy relevant to that category of financial instrument. The proceeds received are recorded as a liability (carry positions) carried at fair value where they are managed on a fair value basis.

Conversely, where the company purchases financial instruments subject to a commitment to resell these at a future date and the risk of ownership does not pass to the company, the consideration paid is included under financial assets carried at fair value where they are managed on a fair value basis.

The difference between the sale and repurchase price is treated as finance cost and is accrued over the life of the agreement using the effective interest rate method.

Financial liabilities at amortised cost

Financial liabilities at amortised cost are recognised initially at fair value, net of transaction costs incurred. These financial liabilities are then subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the liability using the effective interest rate method.

Subordinated redeemable debentures

These debentures are recognised initially at fair value, net of transaction costs incurred. The debentures are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the debentures, using the effective interest rate method. The interest on these redeemable debentures are recognised in the income statement in finance costs.

Accounts payable

Accounts payable are initially carried at fair value and subsequently at amortised cost using the effective interest rate method.

DEFERRED INCOME TAX

Measurement

Deferred income tax is provided for in full, at current tax rates and in terms of laws substantively enacted at the reporting date in respect of temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, using the liability method. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax assets, including tax on capital gains are recognised for tax losses and unused tax credits and are carried forward only to the extent that realisation of the related future tax benefit is probable.

Deferred income tax is provided for in respect of temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax related to fair value re-measurement of available-for-sale financial assets and cash flow hedges, which are included in other comprehensive income, is also included in other comprehensive income and is subsequently recognised in the income statement when there is a realised gain or loss.

In respect of temporary differences arising from the fair value adjustments on investment properties, deferred taxation is provided at the capital gains effective rate, as it is assumed that the carrying value will be recovered through sale.

Offsetting

Deferred tax assets and liabilities are set off when the income tax relates to the same fiscal authority and where there is a legal right of offset at settlement in the company.

CURRENT TAXATION

Measurement

Current tax is provided for at the amount expected to be paid, using the tax rates and in respect of laws that have been substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation, and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. Individual policyholder tax and corporate policyholder tax is included in tax on contract holder funds in the income statement.

Offsetting

Current tax assets and liabilities are set off when a legally enforceable right exists and it is the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Dividend withholding tax (DWT)

DWT is levied on the shareholders (or beneficial owners) receiving the dividend, unless they are exempt in terms of the amended tax law. DWT is levied at 20% of the dividend received. The DWT is categorised as a withholding tax, as the tax is withheld and paid to tax authorities by the company paying the dividend or by a regulated intermediary and not by the beneficial owner of the dividend. Where a non-exempt group company is a beneficial owner of the dividend, the DWT is recorded as an expense in the income statement when the dividend income is earned.

INDIRECT TAXATION

Indirect taxes include various other taxes paid to central and local governments, including value added taxation and regional services levies. Indirect taxes are disclosed as part of operating expenses in the income statement.

LEASES: ACCOUNTING BY LESSEE

Operating leases

Leases where substantially all the risks and rewards incidental to ownership have not been transferred to the company are classified as operating leases. Payments made are charged to the income statement on a straight-line basis over the period of the lease. The company recognises any penalty payment to the lessor for early termination of an operating lease as an expense in the period in which the termination takes place.

LEASES: ACCOUNTING BY LESSOR

Operating leases

When assets are leased out under an operating lease, the asset is included in the statement of financial position based on the nature of the asset. Lease income on operating leases is recognised over the term of the lease on a straight-line basis.

PROVISIONS

Provisions are recognised when, as a result of past events, the company has a present legal or constructive obligation of uncertain timing or amount, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are measured as the present value of management's best estimate of the expenditure required to settle the obligation at the reporting date. The pre-tax discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as finance costs.

Onerous contracts

The company recognises a provision for an onerous contract, except on insurance contracts, when the expected benefits to be derived from a contract are lower than the unavoidable costs of meeting the obligations under the contract.

CONTINGENT LIABILITIES

Contingent liabilities are reflected when the company has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the company, or it is possible but not probable that an outflow of resources will be required to settle a present obligation, or the amount of the obligation cannot be measured with sufficient reliability.

EMPLOYEE BENEFITS

Pension and provident fund obligations

The company provides defined benefit pension schemes as well as defined contribution pension and provident schemes. The schemes are funded through payments to trustee-administered funds, determined by periodic actuarial calculations.

Defined contribution funds

A defined contribution scheme is a fund under which the company pays fixed contributions into a separate entity. Each member's fund value is directly linked to the contributions and the related investment returns. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The company's contributions are charged to the income statement when incurred, except those contributions subsidised by a surplus amount.

Defined benefit pension fund

A defined benefit plan is a pension fund that defines the amount of the pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The asset or liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. Plan assets exclude any insurance contracts issued by the company. The defined benefit obligation is calculated annually, using the projected unit credit method.

Measurement

The present value of the obligation is determined by discounting the estimated future cash outflows, using interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity that approximate the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in equity in other comprehensive income as and when they arise. Actuarial gains and losses can occur as a result of changes in the value of liabilities (caused by changes in the discount rate used, expected salaries or number of employees, life expectancy of employees and expected inflation rates) and changes in the fair value of plan assets (caused as a result of the difference between the actual and expected return on plan assets).

Past-service costs are recognised immediately in the income statement.

An accounting surplus may arise when the present value of the defined benefit obligation less the fair value of plan assets yields a debit balance. In such circumstances, the debit balance recognised as an asset in the company's statement of financial position cannot exceed the present value of any economic benefits available to the company in the form of refunds or reductions in future contributions. In determining the extent to which economic benefits are available to the company the rules of the fund are considered.

Post-retirement medical aid obligations

The company provides a subsidy in respect of medical aid contributions on behalf of qualifying employees and retired personnel. An employee benefit obligation is recognised for these expected future medical aid contributions. This obligation is calculated using the projected unit credit method, actuarial methodologies for the discounted value of contributions and a best estimate of the expected long-term rate of investment return, as well as taking into account estimated contribution increases. The entitlement to these benefits is based on the employees remaining in service up to retirement age. The expected costs of these benefits are accrued over the period of employment, using a methodology similar to that for defined benefit pension schemes. The actuarial gains and losses are recognised as they arise. The increase or decrease in the employee benefit obligation for these costs is charged to other comprehensive income.

Termination benefits

The company recognises termination benefits as a liability in the statement of financial position and as an expense in the income statement when it has a present obligation relating to termination. Termination benefits are payable when employment is terminated by the company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The company recognises termination benefits at the earlier of the following dates: (a) when the company can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

Leave pay liability

The company recognises a liability for the amount of accumulated leave if the company has a present or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Bonus plans

The company pays performance bonuses to senior employees of the company and thirteenth cheque bonuses to certain staff members. Performance bonuses are based on certain objectives, taking into account past business experience and future strategic issues, agreed upon by the board of directors of the holding company. The company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Share-based compensation

The company operates cash-settled share-based compensation plans. For share-based payment transactions that are settled in cash where the amount is based on the equity of the parent or another group company, the company measures the goods or services received as cash-settled share-based payment transactions by assessing the nature of the awards and its own rights and obligations.

Cash-settled compensation plans

The company recognises the value of the services received (expense), and the liability to pay for those services, as the employees render service. The liability is measured, initially and at each reporting date until settled, at the fair value appropriate to the scheme, taking into account the terms and conditions on which the rights were granted, and the extent to which the employees have rendered service to date, excluding the impact of any non-market-related vesting conditions. Non-market-related vesting conditions are included in the assumptions regarding the number of units expected to vest. These assumptions are revised at every reporting date. The impact of the revision of original estimates, if any, is recognised in the income statement, and a corresponding adjustment is made to the liability.

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than continuing use. This classification is only met if the sale is highly probable and the assets or disposal groups are available for immediate sale.

In light of the company’s primary business being the provision of insurance and investment products, non-current assets held as investments are not classified as held for sale as the ongoing investment management implies regular purchases and sales in the ordinary course of business.

Immediately before classification as held for sale, the measurement (carrying amount) of assets and liabilities in relation to a disposal group is recognised based upon the appropriate IFRS standards. On initial recognition as held for sale, the non-current assets and liabilities are recognised at the lower of the carrying amount and fair value less costs to sell.

Any impairment losses on initial classification to held for sale are recognised in the income statement.

The non-current assets and disposal groups held for sale will be reclassified immediately when there is a change in intention to sell. Subsequent measurement of the asset or disposal group at that date will be the lower of:

- its carrying amount before the asset or disposal group was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset or disposal group not been classified as held for sale and
- its recoverable amount at the date of the subsequent decision not to sell.

INCOME RECOGNITION

Income comprises the fair value of services, net of value-added tax. Income is recognised as follows:

Fee income

Fees received on investment management service contracts

Fees charged for investment management services provided in conjunction with an investment contract are recognised as revenue as the services are provided over the expected duration of the contract, as a constant percentage of expected gross profit margins. Initial fees that exceed the level of recurring fees and relate to the future provision of services are deferred and released on a straight-line basis over the lives of the contracts.

Front-end fees

Front-end fees are deferred and released to revenue when the services are rendered, over the expected term of the contract on a straight-line basis.

Trust and fiduciary fees received

Fees received from asset management, retirement fund administration and other related administration services offered by the company are recognised in the accounting period in which the services are rendered. Where initial fees are received, these are deferred and recognised over the average period of the contract. This period is reassessed annually.

Other fee income

Other fees received include scrip lending fees which are based on rates determined per contract and are recognised as the service is rendered. Other fee income also includes policy administration fees which are also recognised as the service is rendered.

Investment income

Interest income

Interest income is recognised in the income statement, using the *effective interest rate method* and taking into account the expected timing and amount of cash flows. Interest income includes the amortisation of any discounts or premiums or other difference between the initial carrying amount of an interest-bearing instrument and its amount at maturity, calculated on the *effective interest rate method.*

Dividend income

Dividends received are recognised when the right to receive payment is established. Dividend income includes scrip dividends received, irrespective of whether the shares or cash was elected, where it is declared out of retained earnings. Dividend income is not recognised when shares of the investee are received and the shareholders receive a pro-rata number of shares; there is no change in economic interest of any investor and there is no economic benefit associated with the transaction.

Rental income

Rental income is recognised on the straight-line method over the term of the rental agreement.

EXPENSE RECOGNITION

Expenses

Other expenses include auditors' remuneration, consulting fees, direct property expenses, information technology expenses, marketing costs, indirect taxes and other expenses not separately disclosed, and are expensed as incurred.

Finance costs

Finance costs are recognised in the income statement, using the effective interest rate method, and taking into account the expected timing and amount of cash flows. Finance costs include the amortisation of any discounts or premiums or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity, calculated on the effective interest rate method.

SEGMENTAL REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the company's executive committee that makes strategic decisions. Refer to segmental report for more details.

CRITICAL JUDGEMENTS AND ACCOUNTING ESTIMATES

PREPARATION OF FINANCIAL STATEMENTS

The financial statements are prepared on the going concern basis of accounting. The statement of financial position is presented based on liquidity. The income statement is presented on the nature of expense method, however sales remuneration is separately disclosed. In the statement of cash flows, the cash flows from operating activities are reported on the indirect method. The financial statements are presented in South African rand, which is the functional currency of the parent.

APPLICATION OF ACCOUNTING POLICIES

Estimates and assumptions are an integral part of financial reporting and as such have an impact on the assets and liabilities of the company. Management applies judgement in determining best-estimates of future experience. Judgements are based on historical experience and management's best estimate expectations of future events, taking into account changes experienced historically.

Estimates and assumptions are regularly updated to reflect actual experience. Actual experience in future financial years can be materially different from the current assumptions and judgements and could require adjustments to the carrying values of the affected assets and liabilities.

The critical estimates and judgements made in applying the company's accounting policies are detailed in the notes to the annual financial statements, as listed below:

- Assessment of control over collective investment schemes: As a result of the adoption of IFRS 10, the company considers control over the fund manager to be a key aspect in determining whether a scheme is controlled by the company or not. Where the control criteria are not met, the criteria for joint control and significant influence are considered. Refer to Annexure A and B for information on the collective investment schemes classified as subsidiaries or associates.
- Impairment testing of intangibles – note 1
- Valuation assumptions for both owner-occupied and investment properties – notes 2 and 4
- Provision for deferred and current tax – notes 9 and 23
- Assumptions and estimates of contract holder liabilities – note 17
- Valuation assumptions for financial instruments – note 46

SEGMENTAL REPORT

For the year ended 30 June 2017

Management has determined the operating segments based on the way the business is being managed. The reports used by the chief operating decision-makers, the members of the executive committee, to make strategic decisions reflect this.

From 1 July 2015 the company embarked on a new segmental reporting view that is aligned with the client-centric goals of the company. The segmental report has been disclosed on this new internal structure and the prior periods have been restated. The new segmental reporting had no impact on the current or prior year reported earnings or headline earnings per share, or on the net asset value or net cash flow.

The new client-centric reporting view reflects the following segments:

- **Momentum Retail:** Momentum Retail's purpose is to enhance the lifetime financial wellness of people, their families, communities and businesses. The focus is on three main client segments – the upper and middle retail segments and the small business segment in South Africa, offering innovative and appropriate wealth creation, risk and savings solutions.

- **Metropolitan Retail:** Metropolitan Retail's purpose is to enhance the lifetime financial wellness of people, their families and their communities through empowerment and education. They target the entry-level market retail segments in South Africa with a focus on client value, ease of interaction, empowering advice and a lifetime engagement, offering savings, income generation, risk and funeral products.

- **Corporate and Public Sector:** In order to enhance the lifetime financial wellness of businesses, employees, customers and their communities, the client is placed at the centre of everything the segment does. This requires deepening industry and sector insights about the institutions that the company serves and focusing on the strategic issues that affect them and their employees.

  The Corporate and Public Sector focuses on medium to large corporates, affinity groups, labour unions and the public sector institutions, offering solutions that grow their profitability, protect their asset base and enhance their sustainability.

- **International:** The International segment manages the company's global expansion holistically, in order to enhance the lifetime financial wellness of people, their communities and their businesses and to take care of client needs in the selected segments of countries where the company is represented.

- **Shareholder Capital:** This segment is responsible for the management of the capital base of the company, and the incubation of strategic initiatives until such time as they start to interact directly with clients, in which case they are then transferred to the relevant operating segment.

The executive committee assesses the performance of the operating segments based on core headline earnings. This measurement basis excludes the effect of net realised and fair value gains on financial assets and liabilities, investment variances, basis changes, certain non-recurring items, and the amortisation of intangible assets acquired in business combinations. For insurance operating segments, core headline earnings also exclude the effect of investment income on shareholder assets, as this income is managed on a company basis and is therefore included in the Shareholder Capital segment.

A reconciliation of core headline earnings to earnings is provided in note 34.

Reconciliation of management information to IFRS

The segmental information is reconciled to the IFRS income statement results. The "Reconciling items" column represents the IFRS accounting reclassifications and adjustments that are required to reconcile management information to the IFRS financial statements. More information has been provided as a footnote.

SEGMENTAL REPORT

2017	Momentum Retail	Metropolitan Retail	Corporate and Public Sector	International	Shareholder capital	Segmental total	Reconciling items (1)	IFRS total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Revenue								
Net insurance premiums	23 914	6 898	19 340	-	-	**50 152**	(31 931)	**18 221**
Recurring premiums	8 838	5 877	10 248	-	-	**24 963**	(9 290)	**15 673**
Single premiums	15 076	1 021	9 092	-	-	**25 189**	(22 641)	**2 548**
Fee income	1 785	79	976	-	-	**2 840**	-	**2 840**
External fee income	1 785	79	976	-	-	**2 840**	-	**2 840**
Expenses								
Net payments to contract holders								
External payments	24 757	5 321	20 595	-	-	**50 673**	(31 530)	**19 143**
Other expenses	3 696	2 328	1 136	23	209	7 392	982	8 374
Sales remuneration	2 047	1 025	103	-	-	**3 175**	-	**3 175**
Administration expenses	1 649	1 303	1 033	23	172	**4 180**	-	**4 180**
Amortisation, depreciation and impairment	-	-	-	-	37	**37**	-	**37**
Direct property expenses and asset management fees	-	-	-	-	-	**-**	982	**982**
Income tax	899	149	522	-	-	**1 570**	-	**1 570**
Core headline earnings	1 425	683	380	(22)	841	3 307	-	3 307
Operating profit	1 983	949	528	(22)	290	**3 728**	-	**3 728**
Tax on operating profit	(558)	(266)	(148)	-	(11)	**(983)**	-	**(983)**
Investment income	-	-	-	-	693	**693**	-	**693**
Tax on investment income	-	-	-	-	(131)	**(131)**	-	**(131)**
Actuarial liabilities	195 019	32 417	113 390	-	-	**340 826**	-	**340 826**

(1) The 'Reconciling items' column relates to investment without DPF inflows and outflows included in the segmental split
(2) The total of non-current assets (other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts) located in South Africa is R86 925 million with no such non-current assets located in other countries.

SEGMENTAL REPORT

Restated 2016	Momentum Retail Rm	Metropolitan Retail Rm	Corporate and Public Sector Rm	International Rm	Shareholder capital Rm	Segmental total Rm	Reconciling items (1) Rm	IFRS total Rm
Revenue								
Net insurance premiums	24 887	6 816	20 267	-	-	51 970	(32 562)	19 408
Recurring premiums	8 531	5 558	9 291	-	-	23 380	(8 720)	14 660
Single premiums	16 356	1 258	10 976	-	-	28 590	(23 842)	4 748
Fee income	2 026	77	1 343	-	3	3 449	-	3 449
External fee income	2 026	77	1 343	-	3	3 449	-	3 449
Expenses								
Net payments to contract holders								
External payments	24 239	5 816	26 431	-	-	56 486	(35 551)	20 935
Other expenses	3 980	2 125	1 324	48	326	7 803	663	8 466
Sales remuneration	2 016	960	133	-	-	3 109	-	3 109
Administration expenses	1 964	1 165	1 191	48	283	4 651	(138)	4 513
Amortisation, depreciation and impairment	-	-	-	-	38	38	-	38
Direct property expenses and asset management fees	-	-	-	-	5	5	801	806
Income tax	461	322	52	(1)	316	1 150	-	1 150
Core headline earnings	1 555	725	210	(47)	881	3 324	-	3 324
Operating profit	2 148	999	313	(48)	(132)	3 280	-	3 280
Tax on operating profit	(593)	(274)	(103)	1	(27)	(996)	-	(996)
Investment income	-	-	-	-	1 197	1 197	-	1 197
Tax on investment income	-	-	-	-	(157)	(157)	-	(157)
Actuarial liabilities	200 837	32 942	103 649	-	2 829	**340 257**	-	**340 257**

(1) The 'Reconciling items' column relates to investment without DPF inflows and outflows included in the segmental split

(2) The total of non-current assets (other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts) located in South Africa is R83 509 million, with no such non-current assets located in other countries

SEGMENTAL REPORT

	2017 Rm	Restated 2016 Rm
Payments to contract holders are reconciled to net insurance benefits and claims in the income statement.		
Momentum Retail	**24 757**	24 239
Death and disability claims	**4 503**	4 338
Maturity claims	**8 056**	6 964
Annuities	**5 112**	4 944
Surrenders	**8 351**	9 335
Reinsurance recoveries	**(1 265)**	(1 342)
Metropolitan Retail	**5 321**	5 816
Death and disability claims	**1 085**	1 076
Maturity claims	**1 722**	2 540
Annuities	**720**	677
Withdrawal benefits		-
Surrenders	**1 845**	1 800
Reinsurance recoveries	**(51)**	(277)
Corporate and Public Sector	**20 595**	26 431
Death and disability claims	**4 513**	4 259
Maturity claims	**1 515**	1 358
Annuities	**1 342**	1 724
Withdrawal benefits	**5 588**	4 850
Terminations and disinvestments	**8 444**	15 184
Reinsurance recoveries	**(807)**	(944)
Total payments to contract holders	**50 673**	56 486
Reconciling items(1)	**(31 530)**	(35 551)
Net insurance benefits and claims (refer to note 28)	**19 143**	20 935

(1) Relates mainly to payments to investment contract holders.

	2017 Rm	2016 Rm
1. INTANGIBLE ASSETS		
Goodwill	**40**	40
Value of in-force business acquired	**639**	672
Customer relationships	**6**	9
Deferred acquisition costs	**1 966**	1 987
Computer software	**166**	259
	2 817	2 967

1.1 Goodwill

	2017 Rm	2016 Rm
Cost	**56**	56
Accumulated impairment	**(16)**	(16)
	40	40
Carrying amount at beginning	**40**	40
Carrying amount at end	**40**	40
Cash generating units (CGU)		
Life books	**40**	40
	40	40

Goodwill is allocated to cash generating units (CGU) for the purpose of impairment testing. The life book represents the CGU of the life insurance book of:

- Commercial Union Life Association of South Africa Ltd R40 million, acquired in 1999 (included in the Metropolitan Retail segment)

The recoverable value of this CGU is determined based on a value-in-use calculation. This calculation uses cash flow projections based on financial budgets approved by management covering a one-year period. Cash flows beyond one year are extrapolated using the estimated growth for the CGU. Future cash flows are discounted at a rate of return that makes allowance for the uncertain nature of the future cash flows. This calculation is dependent on the assumptions disclosed below.

Assumptions	**2017**		2016	
	Risk discount rate	**Income and expense inflation rate**	Risk discount rate	Income and expense inflation rate
Commercial Union Life Association of South Africa Ltd	12%	8%	11%	8%

Impairments

Impairment testing involves the calculation of present value of future profits. No impairment was made.

	2017 Rm	2016 Rm
1.2 Value of in-force business acquired		
Acquisition of insurance and investment contracts with DPF		
Cost	**1 040**	1 040
Accumulated amortisation	**(401)**	(368)
Carrying amount	**639**	672
Carrying amount at beginning	**672**	706
Amortisation charges	**(33)**	(34)
Carrying amount at end	**639**	672
The carrying amount is made up as follows:		
Sage - Shareholder capital segment	**639**	672
	639	672

As a result of certain insurance contracts acquisitions, the company carries an intangible asset representing the present value of in-force business acquired. R639 million (2016: R672 million) relates to the acquisition of Sage and will be fully amortised by 2046.

Critical accounting estimates and judgements
The value of in-force business acquired is tested for impairment through the liability adequacy test. Changing the amortisation period by 20% does not have a material impact on the company earnings before tax.

1.3 Customer relationships

	2017 Rm	2016 Rm
Cost	**17**	17
Accumulated amortisation	**(11)**	(8)
Carrying amount	**6**	9
Carrying amount at beginning	**9**	13
Amortisation charges	**(3)**	(4)
Carrying amount at end	**6**	9
The carrying amount is made up as follows:		
Client contracts from Everest Corporate Benefits (Pty) Ltd - Shareholder capital segment	**6**	9
	6	9

Customer relationships acquired represent the fair value of customer relationships in place immediately before a business combination took place. The business combinations relate to the acquisition of client contracts from Everest Corporate Benefits (Pty) Ltd of R6 million (2016: R9 million). This intangible will be fully amortised by 2019.

	2017 Rm	2016 Rm
1.4 Deferred acquisition costs		
Cost	**4 638**	4 374
Accumulated amortisation	**(2 672)**	(2 387)
Carrying amount	**1 966**	1 987
Carrying amount at beginning	**1 987**	1 905
Additions	**264**	259
Amortisation charges	**(285)**	(177)
Carrying amount at end	**1 966**	1 987
1.5 Computer software		
Acquired computer software		
Cost	**64**	64
Accumulated amortisation	**(32)**	(26)
Carrying amount	**32**	38
Carrying amount at beginning	**38**	7
Additions	**-**	48
Disposals	**-**	(1)
Amortisation charges	**(6)**	(16)
Carrying amount at end	**32**	38
Internally developed computer software		
Cost	**280**	277
Accumulated amortisation	**(44)**	(30)
Accumulated impairment	**(102)**	(26)
Carrying amount	**134**	221
Carrying amount at beginning	**221**	172
Additions	**45**	87
Disposals	**(42)**	-
Amortisation charges	**(14)**	(12)
Impairment charges	**(76)**	(26)
Carrying amount at end	**134**	221
Total computer software	**166**	259

Material computer software

The Metropolitan Retail segment has computer software of R73 million (2016: R146 million) which will be fully amortised by 2022.

The Momentum Retail segment has computer software of R23 million (2016: R27 million) which will be fully amortised by 2019.

	2017 Rm	2016 Rm
2 OWNER-OCCUPIED PROPERTIES		
Owner-occupied properties - at fair value	**1 851**	1 556
Historical carrying value – cost model	**843**	821
Fair value at beginning	**1 556**	1 478
Additions	**13**	28
Disposals	**(8)**	(12)
Revaluations	**121**	108
Depreciation charge	**(48)**	(44)
Impairment below cost	**(28)**	(2)
Transfer (to)/from investment properties	**111**	-
Transfer (to)/from investment properties under development	**134**	-
Fair value at end	**1 851**	1 556

A register of owner-occupied properties is available for inspection at the company's registered office.

Critical accounting estimates and judgements
All properties are valued using a discounted cash flow method or the income capitalisation approach based on the aggregate contractual or market-related rent receivable less associated costs. The discounted cash flow takes projected cash flows and discounts them at a rate which is consistent with comparable market transactions. Any gains or losses arising from changes in fair value are included in other comprehensive income for the year. All owner-occupied properties were valued internally by Eris at the end of the current and prior year.

Assumptions	Base assumption	Change in assumption	Change in fair value: Decrease in assumption Rm	Change in fair value: Increase in assumption Rm
Capitalisation rate	**9% - 10%**	**10%**	**126**	**(103)**
Discount rate	**14% - 15%**	**10%**	**82**	**(108)**

Capitalisation and discount rates (2016: 9% - 10% and 14% - 15% respectively) are determined based on a number of factors, including but not limited to the following: the current risk free rate, the risk associated with the income stream flowing from the property, the real estate cycle, current economic conditions at both the micro- and macro-economic level and the yield that an investor would require in order to make the property an attractive investment. For valuation purposes, existing lease agreements and subsequent expected rentals are used to determine the fair value of each building. Eris is responsible for all of the internal valuations of the company. Their valuators hold recognised and relevant professional qualifications and have recent experience in the location and category of the owner-occupied property being valued.

	2017 Rm	2016 Rm
3 PROPERTY AND EQUIPMENT		
Equipment and leasehold improvements		
Cost	**441**	380
Accumulated depreciation	**(319)**	(263)
Carrying amount	**122**	117
Equipment comprises furniture and fittings, computer equipment and motor vehicles.		
Carrying amount at beginning	**117**	140
Additions	**67**	86
Disposals	**(6)**	(45)
Depreciation charges	**(56)**	(64)
Carrying amount at end	**122**	117

	2017 Rm	2016 Rm
4 INVESTMENT PROPERTIES		
At 30 June investment properties comprised the following property types:		
Industrial	**302**	296
Shopping malls	**3 432**	3 336
Office buildings	**2 139**	2 297
Hotels	**250**	244
Vacant land	**605**	483
Other	**67**	167
Property at valuation	**6 795**	6 823
Accelerated rental income (note 10)	**(156)**	(153)
	6 639	6 670
Investment properties under development		
Fair value at beginning	**564**	-
Transfer from completed properties	**-**	458
Transfer from/(to) owner-occupied properties	**(134)**	-
Capitalised subsequent expenditure	**262**	106
Fair value at end	**692**	564
Completed properties		
Fair value at beginning	**6 106**	6 650
Capitalised subsequent expenditure	**62**	215
Additions	**2**	82
Disposals	**(309)**	(172)
Net gain from fair value adjustments	**205**	278
Change in accelerated rental income	**(8)**	(19)
Transfer from/(to) non-current assets held for sale	**-**	(470)
Transfer from/(to) owner-occupied properties	**(111)**	-
Transfer to investment properties under development	**-**	(458)
Fair value at end	**5 947**	6 106
Total investment properties	**6 639**	6 670

A register of investment properties is available for inspection at the company's registered office.

Critical accounting estimates and judgements

All properties were internally or externally valued using a discounted cash flow method based on contractual or market-related rent receivable. External valuations were obtained for certain properties as at 30 June 2016, amounting to 43% of the portfolio for the company. No external valuations were obtained as at 30 June 2017. Eris Property Group (Eris) is responsible for the internal valuations of the company. Their valuators hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued.

Assumptions	**Base assumptions**	**Change in assumptions**	**Change in fair value**	
			Decrease in assumption Rm	**Increase in assumption Rm**
Capitalisation rate	9% - 10%	10%	**126**	**(103)**
Discount rate	12% - 16%	10%	**82**	**(108)**

Capitalisation and discount rates (2016: 7% - 11% and 12% - 16% respectively) used reflect the security of the income and covenant of strength from the existing tenants. For valuation purposes, existing lease agreements and subsequent expected rentals are used to determine the fair value of each building.

5 INTEREST IN SUBSIDIARY COMPANIES

	Effective % holding		Investment by holding company: Amounts owing by/(to) subsidiaries		Investment by holding company: Company carrying amount		Carrying amount (including loan account)		Nature of business	Country of incorporation
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016		
	%	%	**Rm**	Rm	**Rm**	Rm	**Rm**	Rm		
Subsidiaries (directly held):										
Listed										
Collective investment schemes (Annexure A)	**Various**	Various	**-**	-	**55 528**	49 203	**55 528**	49 203	Unit trusts	South Africa
Unlisted										
Momentum Asset Management (Pty) Ltd	**100**	100	**(34)**	49	**1 018**	1 236	**984**	1 285	Investment Management	South Africa
Momentum Short-term Insurance Company Ltd	**100**	100	**19**	8	**495**	373	**514**	381	Short term insurance	South Africa
Momentum Wealth International Ltd	**100**	100	**32**	18	**423**	449	**455**	467	Investment services	Guernsey
MMI Health (Pty) Ltd	**100**	100	**455**	179	**403**	141	**858**	320	Medical schemes administrator	South Africa
Momentum Wealth (Pty) Ltd	**100**	100	**203**	222	**396**	441	**599**	663	Investment Management	South Africa
102 Rivonia Road (Pty) Ltd	**80**	80	**-**	-	**315**	301	**315**	301	Property Investment	South Africa
Aconcagua 14 Investments (RF) (Pty Ltd	**100**	100	**7**	7	**269**	269	**276**	276	Special purpose - Investments	South Africa
Momentum Alternative Investments (Pty) Ltd	**100**	100	**(10)**	-	**253**	208	**243**	208	Investment Management	South Africa
Momentum Finance Company (Pty) Ltd	**100**	100	**-**	-	**86**	81	**86**	81	Investment in financial instruments	South Africa
SMH Land Development (Pty) Ltd	**100**	100	**(15)**	(30)	**86**	93	**71**	63	Property Investment	South Africa
Momentum Life Botswana Ltd	**100**	100	**(1)**	-	**41**	43	**40**	43	Credit Life and Group Life insurance	Botswana
Momentum Alternative Insurance Ltd	**100**	100	**-**	-	**27**	29	**27**	29	Short term Insurance	South Africa
Momentum Ability Ltd	**100**	100	**-**	-	**23**	45	**23**	45	Long term Insurance	South Africa
Gamaphuteng Enterprises (Proprietary) Ltd	**92**	92	**4**	4	**12**	9	**16**	13	Property Investment	South Africa
Momentum Structured Insurance Ltd	**100**	100	**-**	-	**10**	4	**10**	4	Short term insurance	South Africa
Momentum Consult (Pty) Ltd	**100**	100	**71**	28	**-**	18	**71**	46	Sales and distribution service	South Africa
MMI Short Term Insurance Administration (Pty) Ltd	**100**	100	**102**	38	**-**	109	**102**	147	Short term insurance administration	South Africa
Momentum Growth (Pty) Ltd	**100**	100	**-**	(23)	**-**	52	**-**	29	Dormant - earning investment interest	South Africa
Tsumeb Mall (Pty) Ltd	**56**	56	**-**	-	**-**	23	**-**	23	Property Investment	Namibia
Other unlisted investments in subsidiaries	**Various**	Various	**646**	1 040	**46**	47	**692**	1 087	Various	Various
			1 479	1 540	**59 431**	53 174	**60 910**	54 714		

	2017 Rm	2016 Rm
6 FINANCIAL INSTRUMENTS		
6.1 Securities designated at fair value through income		
Equity securities	**50 067**	58 347
Debt securities	**78 222**	85 753
Funds on deposit and other money market instruments	**12 914**	10 921
Unit-linked investments	**121 597**	117 681
	262 800	272 702
Open ended	**172 732**	176 998
Current	**21 764**	24 546
Non-current	**68 304**	71 158
1 to 5 years	**25 006**	23 936
5 to 10 years	**12 255**	13 521
> 10 years	**31 043**	33 701
	262 800	272 702

General
The open-ended maturity category includes investment assets such as listed and unlisted equities, unit linked investments and other non-term instruments. For these instruments, management is unable to provide a reliable estimate of maturity, given factors such as the volatility of the respective markets and policyholder behaviour.

For risk disclosure of the above financial instruments, refer to the risk management section of the financial statements.
Refer to note 39.1 for details of unlisted financial assets.
A schedule of equity securities is available for inspection at the company's registered office.

	2017 Rm	2016 Rm
Scrip lending (included in securities designated at fair value through income)		
Carrying value of securities on loan		
Local listed equity securities	**-**	1

Scrip lending policy
The company is authorised to conduct lending activities as lender in respect of local listed equity securities and listed government stock to appropriately accredited institutions. Collateral or credit capital (as is applicable) is maintained at a risk-adjusted level of at least 100% of scrip lent.

Risk and reward of securities
In general risk and reward of securities lent is retained by the lender in that they fully participate in the market movement of their investment and is compensated for any dividend payments and interest.

Collateral
Historically, the company monitored collateral levels on a monthly basis and the status of collateral coverage was reported to the executive balance sheet management committee on a quarterly basis. Collateral accepted for securities lending arrangements was not used for any purpose other than being held as security for the arrangements and was only used in the event of a default by the borrowers. The borrowers retained all voting rights and rights to income attaching to the pledged collateral securities (other than cash). No collateral was held in the current and prior financial years.

	2017 Rm	2016 Rm
6.2 Investments in associates designated at fair value through income		
Collective investment schemes (refer to Annexure B)	**18 848**	13 969

	2017 Assets Rm	2017 Liabilities Rm	2016 Assets Rm	2016 Liabilities Rm
6.3 Derivative financial instruments				
Held for trading	**2 382**	**1 758**	1 841	2 040
Held for hedging purposes	**-**	**-**	-	-
	2 382	**1 758**	1 841	2 040
Current	**292**	**73**	346	140
Non-current	**2 090**	**1 685**	1 495	1 900
	2 382	**1 758**	1 841	2 040

As part of its asset and liability management, the company purchases derivative financial instruments to reduce the exposure of policyholder and shareholder assets to market risks and to match the liabilities arising on insurance contracts.

Under no circumstances are derivative contracts entered into for speculative purposes. Where derivative financial instruments do not meet the hedge accounting criteria in IAS 39 - Financial instruments: recognition and measurement - they are classified and accounted for as instruments held for trading in accordance with the requirements of this standard.

The following table shows the fair value of derivative financial instruments recorded as assets or liabilities, together with their effective exposure. In the prior year the notional amounts were disclosed. However, in the current year, this was changed to effective exposure as it better reflects the extent of the risks arising from derivative instruments. Effective exposure is the exposure of a derivative financial contract or instrument to the underlying asset by also taking delta (the ratio comparing the change in the price of the underlying asset to the corresponding change in the price of a derivative) into account, where applicable.

The mark-to-market value of a derivative does not give an indication of the effective exposure of portfolios to changes in market values of that derivative position. The effective exposure of a derivative position reflects the equivalent amount of the underlying security that would provide the same profit or loss as the derivative position, given an incremental change in the price of the underlying security. A derivative position is translated into the equivalent physical holding, or its market value, which provides a meaningful measure in respect of asset allocation. For example:
- the market value for swaps, such as interest rate swaps;
- the underlying market value represented by futures contracts; and
- the delta adjusted effective exposure derived from an option position.

	2017			2016		
	Effective exposure Rm	**Assets Rm**	**Liabilities Rm**	Effective exposure Rm	Assets Rm	Liabilities Rm
Derivatives held for trading						
Equity derivatives		**57**	**18**		74	88
Options, OTC	**-**	**-**	**-**	-	2	4
Options, exchange traded	**235**	**48**	**-**	304	68	16
Futures, exchange traded	**(638)**	**3**	**-**	(615)	-	62
Swaps, OTC	**13**	**6**	**18**	1	4	6
Interest rate derivatives		**2 318**	**907**		1 731	851
Options, OTC	**210**	**14**	**-**	253	16	-
Swaps, OTC	**(1 399)**	**2 304**	**907**	(873)	1 715	851
Forward rate agreement, OTC	**-**		**-**	-	-	-
Bonds		**1**	**36**		8	8
Options, exchange traded	**(7)**	**-**	**-**	(22)	-	7
Futures, OTC	**(1 975)**	**1**	**36**	(615)	8	1
Futures, exchange traded	**(1 246)**	**-**	**-**	(1 012)	-	-
Credit derivatives		**6**	**2**		5	5
Swaps, OTC	**(4)**	**6**	**2**	1	5	5
Currency derivatives		**-**	**795**		23	1 088
Futures, OTC	**-**	**-**	**-**	(510)	23	40
Swaps, OTC	**795**	**-**	**795**	1 048	-	1 048
Futures, exchange traded	**(11)**	**-**	**-**	465	-	-
Derivatives held for trading	**(4 027)**	**2 382**	**1 758**	(1 575)	1 841	2 040
Total derivatives financial instruments		**2 382**	**1 758**		1 841	2 040

At their inception derivatives often involve only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the company.

Over-the-counter derivatives may expose the company to the risks associated with the absence of an exchange market on which to close out an open position.

The company's exposure under derivative contracts is closely monitored as part of the overall management of the company's market risk.

	2017 Rm	2016 Rm
7 LOANS AND RECEIVABLES		
Accounts receivable	**1 418**	1 325
Less provision for impairment	**(44)**	(41)
Unsettled trades	**141**	344
Loans	**5 808**	4 711
Related party loans		
Staff loans	**16**	22
Loans due from subsidiaries and fellow MMI Holdings Ltd subsidiaries	**4 452**	3 223
Less provision for impairment	**(227)**	(97)
Other related party loans	**138**	132
Other loans		
Due from agents, brokers and intermediaries	**480**	471
Less provision for impairment	**(238)**	(244)
Policy loans	**1 187**	1 204
	7 323	6 339
Current	**7 257**	6 339
Non-current	**66**	-
	7 323	6 339
Reconciliation of aggregated provision accounts		
Balance at beginning	**382**	286
Additional provision	**139**	125
Paid/reversed during year	**(12)**	(29)
Balance at end	**509**	382

Terms and conditions and impairment provisions of material loans

- Loans to group companies are interest free, repayable on demand, and are unsecured.
- Staff loans consist of personal computer and micro loans, with a repayment date of 3 years and interest rates ranging between 16% and 19% (2016: 10% and 19%) that are unsecured, as well as bonds with a repayment date of 30 years and interest rate of 11% (2016: between 5% and 13%) that are secured by the employee's pension.
- Policy loans are limited to and secured by the underlying value of the unpaid policy benefits. Some of these loans attract interest at prime plus 1% and have no fixed repayment date. Other loans attract interest at rates greater than the current prime rate but limited to 10.5% (2016: 10.5%) and have no fixed repayment date. Policy loans are tested for impairment against the surrender value of the policy.

Impairment of loans

- Impairment of loans to agents, brokers and intermediaries is mainly due to intermediaries moving to out-of-service status and unproductive agent accounts.
- Loans due from subsidiaries are impaired where there is an indication that the loan might not be repaid, mostly in cases where the subsidiary's liabilities exceed its assets and where there are no immediate repayment terms.

8 REINSURANCE CONTRACTS

	2017 Rm	2016 Rm
Reinsurance asset relating to long-term insurance	**1 039**	1 134
Prepaid reinsurance	**675**	601
	1 714	1 735
Balance at beginning	**1 735**	1 597
Sale of business	**(166)**	(4)
Movement charged to income statement	**145**	142
Balance at end	**1 714**	1 735
Current	**989**	1 211
Non-current	**725**	524
	1 714	1 735

Refer to note 17 for relevant assumptions and estimates applied in valuation of the reinsurance assets. Amounts due from reinsurers in respect of claims incurred by the company on contracts that are reinsured, are included in insurance and other receivables. Refer to note 10.

9 DEFERRED INCOME TAX

	2017 Rm	2016 Rm
Deferred tax liability	**(994)**	**(1 420)**
	(994)	(1 420)
Deferred tax is made up as follows:		
Accruals and provisions	**(11)**	58
Revaluations	**(647)**	(1 053)
Deferred tax on intangible assets as a result of business combinations	**(227)**	(263)
Deferred revenue liability	**126**	123
Difference between published and statutory policyholder liabilities	**967**	714
Negative rand reserves	**(790)**	(375)
Deferred acquisition costs	**(550)**	(556)
Deferred assessed losses	**214**	-
Prepayments	**(6)**	(7)
Other	**(70)**	(61)
	(994)	(1 420)
Current	**196**	24
Non-current	**(1 190)**	(1 444)
	(994)	(1 420)

	2017 Rm	2016 Rm
Movement in deferred tax		
Balance at beginning	**(1 420)**	(1 765)
Charge to the income statement	**455**	366
Accruals and provisions	**(68)**	(39)
Revaluations	**434**	313
Deferred tax on intangible assets as a result of business combinations	**36**	(14)
Deferred revenue liability	**3**	(6)
Difference between published and statutory policyholder liabilities	**253**	104
Negative rand reserves	**(415)**	33
Deferred acquisition costs	**6**	(23)
Deferred assessed losses	**214**	-
Prepayments	**1**	(3)
Other	**(9)**	1
Charge to other comprehensive income (note 13)	**(29)**	(21)
Other	**-**	-
Balance at end	**(994)**	(1 420)
Deferred tax asset on available tax losses and credits not provided for	**-**	-

Creation of deferred tax assets
Tax losses have been provided for as deferred tax assets where at year-end their recoverability was probable.

Critical accounting estimates and judgements
There may be transactions and calculations for which the ultimate taxation determination has an element of uncertainty during the ordinary course of business. The company recognises liabilities based on objective estimates of the amount of taxation that may be due. Where the final taxation determination is different from the amounts that were initially recorded, such difference will impact earnings in the period in which such determination is made.

Deferred tax on the revaluation of owner-occupied properties has been calculated using a combination of the normal South African income tax rate and the capital gains tax rate applicable at year-end. If the capital gains tax rate had been used on these properties, the deferred tax raised would have been R31 million (2016: R27 million) lower.

10 INSURANCE AND OTHER RECEIVABLES

	2017 Rm	2016 Rm
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**2 379**	2 552
Insurance contract holders	**1 848**	2 017
Investment contract holders with DPF	**44**	40
Less provision for impairment	**(32)**	(41)
Due from reinsurers	**519**	536
Accelerated rental income (note 4)	**156**	153
	2 535	2 705
Current	**2 326**	2 705
Non-current	**209**	-
	2 535	2 705

Impairment of receivables arising from insurance contracts and investment contracts with DPF
Impairment is mainly due to expected default in payments.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

	2017 Rm	2016 Rm
11 CASH AND CASH EQUIVALENTS		
Bank and other cash balances	**5 103**	4 404
Funds on deposit and other money market instruments – maturity < 90 days	**8 951**	12 095
	14 054	16 499

	2017 Rm	2016 Rm
12 SHARE CAPITAL AND SHARE PREMIUM		
Authorised share capital of MMI Group Ltd		
225 million ordinary shares of 5 cents each		
50 000 non-redeemable, non-cumulative, non-participating preference shares of 5 cents each and 4 104 000 convertible, participating, non-voting preference shares of 5 cents each		
Issued share capital		
Balance at beginning	**1 041**	1 041
Balance at the end	**1 041**	1 041
Share capital	**9**	9
Share premium	**1 032**	1 032
Balance at the end	**1 041**	1 041

MMI Group Ltd had 190 million ordinary shares in issue at 30 June 2017 (2016: 190 million).

Preference shares
MMI Group Ltd has 50 000 non-redeemable, non-cumulative, non-participating preference shares in issue. Refer to note 14.

Dividends
For detail of dividends declared and paid during the year, refer to the directors' report.

	2017 Rm	2016 Rm
13 OTHER COMPONENTS OF EQUITY		
(a) Land and building revaluation reserve	**673**	603
(b) Revaluation of subsidiaries	**1 508**	1 558
(c) Revaluation of available-for-sale investments	**-**	-
(d) Employee benefit revaluation reserve	**88**	78
(e) Common control reserve	**4 678**	4 659
	6 947	6 898

Movements in other reserves

	2017 Rm	2016 Rm
(a) Land and building revaluation reserve		
Balance at beginning	**603**	536
Earnings directly attributable to other components of equity	**93**	86
Revaluation	**121**	108
Deferred tax on revaluation	**(28)**	(22)
Transferred to retained earnings	**(23)**	(19)
Balance at end	**673**	603

The transfer of R23 million (2016: R19 million) to retained earnings relate to the difference between the depreciation charge on the revalued amount and the amount which would have been charged under the historic cost model, net of any related deferred tax.

	2017 Rm	2016 Rm
(b) Revaluation of subsidiaries		
Balance at beginning	**1 558**	1 315
Fair value movement on subsidiaries	**(133)**	243
Transferred from retained earnings	**83**	-
Balance at end	**1 508**	1 558
(c) Revaluation of available-for-sale investments		
Available-for-sale assets		
Balance at beginning	-	5
Gains transferred to net realised gains	-	(6)
Deferred tax on realisation	-	1
Balance at end	**-**	-
(d) Employee benefit revaluation reserve		
Balance at beginning	**78**	81
Remeasurement of post-employment benefit obligations	**11**	(3)
Deferred tax	**(1)**	-
Balance at end	**88**	78
(e) Common control reserve		
Balance at beginning	**4 659**	4 659
Acquisition	**19**	-
Balance at end	**4 678**	4 659

The company acquired the long-term insurance business of Metropolitan Life Ltd with effect from 31 May 2013. The administration business of Momentum Retirement Administrators (Pty) Ltd was also acquired with effect from 1 April 2017. This reserve reflects the difference between the purchase consideration and the book value of the assets and liabilities of a common control business combination.

	2017 Rm	2016 Rm
14 PREFERENCE SHARES		
Non-redeemable, non-cumulative, non-participative preference shares issued by MMI Group Ltd		
Balance at beginning	**500**	500
Total comprehensive income	**36**	33
Dividend paid	**(36)**	(33)
Balance at end	**500**	500

This represents preference shares issued by the company to MMI Holdings Ltd. The declaration of preference dividends is calculated at a rate of 68% of the prime interest rate. The dividends in the current year amounted to R36 million (2016: R33 million).

	2017 Rm	2016 Rm
15 INSURANCE CONTRACTS		
Long-term insurance contracts – gross	**96 613**	97 749
Less: recovery from reinsurers (note 8)	**(1 714)**	(1 735)
Long-term insurance contracts – net	**94 899**	96 014
Movement in long-term insurance contract liabilities		
Balance at beginning	**97 749**	96 796
Transfer to / from policyholder liabilities under insurance contracts	**(970)**	953
Increase in retrospective liabilities	**(40)**	2 782
Unwind of discount rate	**3 479**	2 894
Expected release of margins	**(2 749)**	(2 800)
Expected cash flows	**(3 952)**	(4 554)
Change in economic assumptions	**(17)**	14
Change in non-economic assumptions	**380**	434
New business	**2 048**	2 388
Experience variances	**(119)**	(205)
Sale of business	**(166)**	-
Balance at end	**96 613**	97 749
Open-ended	**13 785**	14 550
Current	**10 397**	10 144
Non-current	**72 431**	73 055
	96 613	97 749

16 INVESTMENT CONTRACTS

	2017 Rm	2016 Rm
Investment contracts with DPF	**22 750**	23 581
Investment contracts designated at fair value through income	**221 463**	218 927
Total investment contract liability	**244 213**	242 508
Movement in investment contracts with DPF		
Balance at beginning	**23 581**	24 643
Transfer from policyholder liabilities under investment contracts with DPF	**(831)**	(1 062)
Increase/(decrease) in retrospective liabilities	**(1 184)**	(1 618)
Unwind of discount rate	**(8)**	(12)
Expected release of margins	**(180)**	(254)
Expected cash flows	**(102)**	(503)
Change in non-economic assumptions	**11**	63
New business	**642**	1 236
Experience variances	**(10)**	26
Balance at end	**22 750**	23 581
Open-ended	**17 752**	18 201
Current	**738**	712
Non-current	**4 260**	4 668
	22 750	23 581
Movement in investment contracts designated at fair value through income		
Balance at beginning	**218 927**	208 429
Sale of business	**(1 355)**	-
Contract holder movements	**3 891**	10 498
Deposits received	**31 857**	32 562
Contract benefit payments	**(31 530)**	(35 551)
Fees on investment contracts	**(2 281)**	(2 280)
Fair value adjustment to policyholder liabilities under investment contracts	**5 845**	15 767
Balance at end	**221 463**	218 927
Open-ended	**110 377**	107 136
Current	**4 439**	4 353
Non-current	**106 647**	107 438
	221 463	218 927

17 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES

The actuarial value of policyholder liabilities arising from long-term insurance contracts is determined using the financial soundness valuation method as described in the standard of actuarial practice note SAP104 of the Actuarial Society of South Africa (ASSA). The valuation of contract holder liabilities is a function of methodology and assumptions. The methodology is described in the accounting policies on pages 29 to 51.

The assumptions are set as follows:

- The best estimate for a particular assumption is determined;
- Prescribed margins are then applied, as required by the Long-term Insurance Act of South Africa and board notice 14 of 2010 issued in terms of the act, as well as SAP104 and
- Discretionary margins may be applied, as required by the valuation methodology or if the statutory actuary considers such margins necessary to cover the risks inherent in the contracts.

The process used to decide on best-estimate assumptions is described below:

Mortality

- Individual smoothed bonus and non-profit business: Mortality assumptions are based on internal investigations into mortality experience. These are carried out at least annually, with the most recent investigation being in respect of the period ended December 2016 for MMIGL retail businesses.
- Conventional with-profit business (excluding home service funeral business): Regular mortality investigations are carried out, with the most recent investigations being in respect of the period to December 2016 for MMIGL retail businesses.
- Annuity business: Mortality assumptions for Metropolitan Retail annuity business are based on internal experience investigations. The most recent investigation was completed for the period ending 31 December 2016. The Momentum Retail annuitant mortality basis is derived from the RMV 92, RFV 92 and 2002 South African Annuitant standard mortality tables, adjusted for experience. The most recent investigation was carried out in 2016. Mortality assumptions for employee benefits contracts within the Corporate and Public Sector segment are based on the 2002 South African Annuitant mortality tables adjusted for experience. The most recent investigation was in respect of the period to December 2016. An explicit allowance is made for mortality improvements.
- Allowance for changes in future mortality as a result of AIDS for Individual life business has been made using models compliant with the ASSA APN 105.

Morbidity

- Internal morbidity and accident investigations on retail contracts are done regularly, the most recent being in respect of the period ended December 2016 for Momentum Retail. For Metropolitan Retail exposure is extremely low and morbidity rates are derived through collaboration with reinsurers. Assumptions relating to benefits under employee benefit contracts within the Corporate and Public Sector segment have been set relative to experience up to December 2016.
- For group life insurance contracts, the rate of recovery from disability is derived from industry experience studies, adjusted where appropriate for the company's own experience.
- For individual Permanent Health Insurance business (PHI), disability claim recovery probabilities are based on recovery rates provided by reinsurers.
- For benefits under employee benefit contracts within the Corporate and Public Sector segment, disability claim recovery probabilities are modelled using the group long-term disability table (GLTD) developed in the United States of America. The table details recovery rates for given ages, waiting periods and durations since disability. These recovery rates are then adjusted for the company's own experience.

Persistency

- Lapse and surrender assumptions are based on past experience. When appropriate, account is also taken of expected future trends (including the effect of expected premium reviews).
- Lapse investigations are performed at least annually for MMIGL retail business, the most recent being in respect of the period ended November 2016 for Metropolitan Retail business and December 2016 for Momentum Retail business.
- Surrender investigations are performed at least annually for MMIGL retail business, the most recent being in respect of the period ended November 2016 for Metropolitan Retail business and December 2016 for Momentum Retail business.
- Experience is analysed by product type as well as policy duration, distribution channel and smoker status.

Expenses

Expenses are allocated into three major categories, namely new business, maintenance and development and project expenses. Expenses are allocated into these categories, as well as per segment and product, using a variety of methods. These methods include direct allocations according to function and/or operational structure, functional cost analyses as well as pre-defined cost allocation models.

- Provision for future renewal expenses starts at a level consistent with the budgeted expense for the 2018 financial year and allows for escalation at the assumed expense inflation rate of 6.0% over the planning horizon (three years) where after the inflation rate is derived from market inputs as the difference between nominal and real yields across the term structure of these curves. An additional 1% expense inflation is assumed in respect of retail business within the Momentum Retail segment to reflect the impact of the run-off of the closed books.
- Asset management expenses are expressed as an annual percentage of assets under management.

Investment returns

- Market-related information is used to derive assumptions in respect of investment returns, discount rates used in calculating contract holder liabilities and renewal expense inflation.
- These assumptions take into account the notional long-term asset mix backing each liability type and are suitably adjusted for tax and investment expenses.
- Yields of appropriate duration from an appropriate market-related yield curve as at the valuation date are used to discount expected cash flows at each duration. The yield curve used is based on fixed or CPI-linked risk-free securities and, depending on the nature of the corresponding liability, adjusted for credit and liquidity spreads of the assets actually held in the underlying portfolio.

  - Investment returns for other asset classes are set as follows:
    - Equity rate: gilt rate + 3.5% (2016: + 3.5%)
    - Property rate: gilt rate + 1.0% (2016: + 1.0%)
    - Corporate bonds: gilt rate + 0.5% (2016: + 0.5%)
    - Cash rate: gilt rate - 1.0% (2016: - 1.0%)

- An inflation rate of 6.0% p.a. for ZAR denominated business was used to project future renewal expenses over the planning horizon (3 years) whereafter the inflation rate is derived from market inputs as the difference between nominal and real yields across the term structure of these curves. An additional 1% expense inflation is assumed in respect of retail businesses within the Momentum Retail segment to reflect the impact of the run-off of the closed books.
- The main best-estimate assumptions, gross of tax, used in the valuation are:

	2017	2016
Gilt rate - risk-free investment return	**9.4%**	9.2%
Assumed investment return for individual smoothed bonus business	**11.6%**	11.4%
Renewal expense inflation	**6.8%**	7.4%

Future bonuses

- Contract holders' reasonable benefit expectations are allowed for by assuming bonus rates supported by the market value of the underlying assets and the assumed future investment return.
- For smoothed bonus business, where bonus stabilisation accounts (BSAs) are negative, liabilities are reduced by an amount that can reasonably be accepted to be recovered through under-distribution of bonuses during the ensuing three years. These amounts are determined by projecting BSAs three years into the future using assumed investment returns as per the valuation basis, net of applicable taxes and charges, as well as assumed bonus rates that are lower than those supported by the assumed investment return but nevertheless consistent with the bonus philosophies of the relevant funds. The assumed bonus rates are communicated to, and accepted by, both management and the respective boards of directors.
- For conventional with-profit business, all future bonuses are provided for at bonus rates supported by the market value of the underlying assets and the assumed future investment return. Any resulting reduction in future bonus rates used in the valuation assumptions, relative to those most recently declared, is communicated to, and accepted by, both management and the respective boards of directors at each annual bonus declaration.

Investment guarantees (APN110)

- A market-consistent stochastic model was calibrated using market data as at 30 June 2017 and the value of the investment guarantee liabilities was calculated as at this date.
- APN110 prescribes specific disclosure in respect of the market-consistent stochastic model that was used to calculate the liabilities.

The following table discloses specific points on the zero coupon yield curve used in the projection of the assets as at 30 June:

Year	1	2	3	4	5	10	15	20	25	30	35	40
Yield % - 2017	**7.5**	**7.7**	**7.8**	**8.0**	**8.2**	**9.4**	**10.4**	**11.0**	**11.2**	**11.3**	**11.2**	**11.1**
Yield % - 2016	7.6	7.8	8.1	8.3	8.5	9.3	9.9	10.3	10.5	10.7	10.9	10.9

The following instruments have been valued by the model:

Instrument	2017		2016	
	Price (% of nominal)	Volatility	Price (% of nominal)	Volatility
A 1-year at-the-money (spot) put on the FTSE/JSE Top 40 index	5.0%	18.4%	6.7%	23.0%
A 1-year put on the FTSE/JSE Top 40 index, with a strike price equal to 0.8 of spot	1.0%	22.3%	2.0%	27.5%
A 1-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 1.0476 (2016: 1.0481)	6.8%	17.4%	8.5%	21.9%
A 5-year at-the-money (spot) put on the FTSE/JSE Top 40 index	7.0%	22.6%	8.4%	25.4%
A 5-year put on the FTSE/JSE Top 40 index, with a strike price equal to $(1.04)^5$ of spot	12.9%	21.4%	14.4%	23.9%
A 5-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 1.3195 (2016: 1.3278)	16.4%	20.9%	18.1%	23.2%
A 20-year at-the-money (spot) put on the FTSE/JSE Top 40 index	1.5%	28.1%	2.4%	30.1%
A 20-year put on the FTSE/JSE Top 40 index, with a strike price equal to $(1.04)^{20}$ of spot	6.9%	27.6%	9.6%	29.2%
A 20-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 5.003 (2016: 4.3983)	29.1%	27.8%	29.1%	28.0%
A 5-year put, with a strike price equal to $(1.04)^5$ of spot, on an underlying index constructed as 60% FTSE/JSE Top 40 and 40% ALBI, with rebalancing of the underlying index back to these weights taking place annually	5.7%	13.2%	6.7%	15.2%
A 20-year put on an interest rate with a strike equal to the present 5-year forward rate at maturity of the put, which pays out if the 5-year forward rate at the time of maturity (in 20 years) is lower than this strike price	0.3%	n/a	0.4%	n/a

Tax

- Future tax on investment returns is allowed for, according to tax regulations applicable from 1 July 2016 (explicitly allowing for the election of the transfer of existing business to the new Risk Policy Fund which became effective on 1 July 2016), by appropriately reducing the gross valuation interest rate expected to be earned in the future on the various books of business.
- A long-term assumption is made for assumed future tax relief on expenses, based on past experience and expected future trends.
- No value has been attributed to any assessed losses in the contract holder tax funds.

Basis and other changes

Assumptions and methodologies used in the financial soundness valuation basis are reviewed at the reporting date and the impact of any resulting changes in actuarial estimates is reflected in the income statement as they occur.

- Basis and other changes decreased the excess of assets over liabilities at 30 June 2017 by R309 million (2016: decrease of R469 million) for the company. The major contributors to this change were as follows for the company:
  - Actuarial methodology and other changes, positive R76 million (2016: negative R271 million).
  - Experience basis changes of negative R385 million (2016: negative R198 million). The experience basis changes are in respect of withdrawal, expense and mortality assumptions.
- The impact of changes in the valuation discount rate, consequent changes in the assumed level of renewal expense inflation and investment over- or under-performance in respect of non-linked business is included under this heading.

Sensitivity analysis

The sensitivity of the value of contract holder liabilities to movement in the assumptions is shown in the table below. In each instance, the specified assumption changes while all the other assumptions remain constant.

The numbers in the table demonstrate the impact on liabilities if experience deviates from best-estimate assumptions by the specified amount in all future years.

2017	**Liability** **Rm**	**Renewal expenses decrease by 10%** **Rm**	**Expense inflation decreases by 1%** **Rm**	**Discontinuance rates decrease by 10%** **Rm**	**Mortality and morbidity decrease by 5%** **Rm**	**Investment returns reduce by 1%** **Rm**
Insurance business						
Retail insurance business (excluding annuities)	51 610	50 658	50 807	52 014	49 497	52 353
Annuities (retail and employee benefits)	40 866	40 713	40 735	40 866	41 304	42 741
Employee benefits business (excluding annuities)	4 137	4 137	4 137	4 137	4 137	4 152
Investment with DPF business	22 750	22 724	22 727	22 735	22 722	22 938
Investment business	221 463	221 426	221 426	221 430	221 395	223 443
Total	**340 826**	**339 658**	**339 832**	**341 182**	**339 055**	**345 627**

2016	Liability Rm	Renewal expenses decrease by 10% Rm	Expense inflation decreases by 1% Rm	Discontinuance rates decrease by 10% Rm	Mortality and morbidity decrease by 5% Rm	Investment returns reduce by 1% Rm
Insurance business						
Retail insurance business (excluding annuities)	61 466	60 568	60 839	61 707	59 624	61 921
Annuities (retail and employee benefits)	27 931	27 784	27 825	27 931	28 285	29 073
Employee benefits business (excluding annuities)	8 352	8 352	8 352	8 352	8 352	8 356
Investment with DPF business	23 581	23 566	23 574	23 582	23 560	23 823
Investment business	218 927	218 924	218 926	218 927	218 927	220 662
Total	340 257	339 194	339 516	340 499	338 748	343 835

The impact of the reduction in the assumed investment return includes the consequent change in projected bonus rates, discount rates and the assumed level of renewal expense inflation.

The above sensitivities were chosen because they represent the main assumptions regarding future experience that the company employs in determining its insurance liabilities. The magnitudes of the variances were chosen to be consistent with the sensitivities shown in the company's published embedded value report and also to facilitate comparisons with similar sensitivities published by other insurance companies in South Africa.

It is not uncommon to experience one or more of the stated deviations in any given year. There might be some correlation between sensitivities; for instance, changes in investment returns are normally correlated with changes in discontinuance rates. The table above shows the impact of each sensitivity in isolation, without taking into account possible correlations.

The table does not show the financial impact of variances in lump sum mortality and morbidity claims in respect of employee benefits business because of the annually renewable nature of this class of insurance. An indication of the sensitivity of financial results to mortality and morbidity variances on this class of business can be obtained by noting that a 5% (2016: 5%) increase in mortality and morbidity lump sum benefits paid on employee benefits business in any given year will result in a reduction of R115.5 million (2016: R121.6 million) in the before-tax earnings of the company.

It should be pointed out that the table shows only the sensitivity of liabilities to changes in valuation assumptions. It does not fully reflect the impact of the stated variances on the company's financial position. In many instances, changes in the fair value of assets will accompany changes in liabilities. An example of this is the annuity portfolio, where assets and liabilities are closely matched. A change in annuitant liabilities following a change in long-term interest rates will be countered by an almost equal change in the value of assets backing these liabilities, resulting in a relatively modest overall change in net asset value.

18 FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH INCOME

	2017 Rm	2016 Rm
Subordinated call notes	**3 602**	3 557
Carry positions	**7 391**	7 251
	10 993	10 808
Current	**7 391**	7 251
Non-current	**3 602**	3 557
	10 993	10 808

- Subordinated call notes (unsecured) - the Financial Services Board (FSB) granted approval for the company to raise debt issuances. Refer to note 40 for more detail. The company has sufficient cash to cover the debt.
- Carry positions (secured) - R1 642 million (2016: R2 348 million) relates to a carry position reported by Momentum Asset Managers that represents a sale and repurchase of assets in Momentum's annuity portfolio. These carry positions are secured by government stock with a value of R1 616 million (2016: R2 374 million).

	MSRF	MSPF	SGPF	MGL
	Rm	Rm	Rm	Rm
19 EMPLOYEE BENEFIT ASSETS				
2017				
Present value of funded obligation	-	-	-	-
Fair value of plan assets	71	76	269	416
	71	76	269	416
Applied limit	-	(8)	-	(8)
Net asset recognised	71	68	269	408
Movement in present value of funded obligation				
Movement in fair value of plan assets				
Balance at beginning	131	71	248	450
First time recognition of retirement fund asset	-		-	
Return on plan assets	12	11	24	47
Recognised in other comprehensive income	(1)	(6)	(3)	(10)
Employer contributions	(7)	-	-	(7)
Transfers - fair value of plan assets	(64)	-	-	(64)
Balance at end	71	76	269	416
Current	-	-	-	-
Non-current	71	76	269	416
	71	76	269	416

	MSRF	MSPF	SGPF	MGL
	Rm	Rm	Rm	Rm
EMPLOYEE BENEFIT ASSETS				
2016				
Present value of funded obligation	-	-	-	-
Fair value of plan assets	131	71	248	450
	131	71	248	450
Applied limit	-	(9)	-	(9)
Net asset recognised	131	62	248	441
Movement in present value of funded obligation				
Balance at beginning	-	3	-	3
Settlements/curtailments	-	(3)	-	(3)
Balance at end	-	-	-	-
Movement in fair value of plan assets				
Balance at beginning	119	60	231	410
First Time Recognition of Retirement Fund Asset	12	4	-	16
Return on plan assets	11	5	21	37
Recognised in other comprehensive income	(1)	5	(4)	-
Employer contributions	(10)	-	-	(10)
Settlements	-	(3)	-	(3)
Balance at end	131	71	248	450
Current	64	-	-	64
Non-current	67	71	248	386
	131	71	248	450

MMI Group Retirement Scheme (MGRS)
With effect from 1 July 2013, the majority of the Momentum and Metropolitan staff of the funds below converted to the MGRS. The MGRS is a defined contribution fund. Contributions for the current year are included in note 30.

Sage Group Pension Fund (SGPF)
All full time employees in the company are members of either defined benefit pension funds or defined contribution schemes that are governed by the Pension Funds Act, 24 of 1956. The Sage Group Pension Fund (SGPF) is a final salary defined benefit plan and is valued by independent actuaries every three years. The latest actuarial valuation of this fund indicated that the fund was found to be in a sound financial position.

MMI Group Ltd, as the employer, and the employees also contribute to the defined contribution staff pension fund. The employee is paid his share of the fund at the benefit date. The company has no liability relating to this scheme.

The key valuation assumptions for the SGPF are:

Assumptions	Base assumption	
Discount rate	8%	(2016: 10%)
Expected rate of return on plan assets	8%	(2016: 10%)
Salary inflation rate	5%	(2016: 7%)
Net post-retirement interest rate	3%	(2016: 2%)
Normal retirement age	60 – 65 years	
Mortality		
Pre-retirement	SA 72-77 ultimate, with female rates equal to 70% of male rates	
Post-retirement	PA(90) minus 4	

Metropolitan Staff Retirement Fund (MSRF)

The MSRF is a defined contribution arrangement with two separately registered sections: pension and provident. Members contribute at a fixed percentage of salary to the pension fund section and the employer contributes to the provident fund section.

The employer’s share of the surplus in the old defined benefit fund, which was transferred to the defined contribution fund on 1 April 1999, was kept in the employer contribution subsidy reserve account until 1 April 2002 (the surplus apportionment date).

The surplus apportionment scheme of the provident section was approved by the FSB in June 2008. The surplus has been transferred to the Employer Surplus Account (ESA), which is being used by the employer to subsidise contributions to the fund.

The pension fund section submitted a nil return that was noted by the FSB. The fair value of the plan assets represents the balance of the ESA valued at market value at year-end.

Metropolitan Staff Pension Fund (MSPF)

This defined benefit scheme has been closed to new members since 1 April 1999. The company is required to meet the balance of the cost of providing the fund benefits as recommended by the valuator on the basis of the ongoing triennial statutory actuarial valuations.

A nil return was noted by the FSB in October 2005. Subsequent to the surplus apportionment date (1 April 2002), a surplus has emerged in the fund.

During the 2014 financial year the majority of the remaining active members transferred to other retirement fund arrangements in the company and the pensioners were transferred to an insured arrangement due in part to the employer's decision to consolidate the provision of retirement and insurance benefits. During the 2015 financial year, almost all the remaining active members were transferred out to other retirement fund arrangements; the balance was transferred in the 2016 financial year and the fund was wound-up.

Fair value of the plan assets is determined with reference to the approximate rate of investment return earned by the fund until June 2017. A limit was applied to the net plan assets in terms of IFRIC 14 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, based on the balance of the ESA of the MSPF.

Assumptions	Base assumption	
Valuation rate of interest	0%	(2016: 9%)
Expected rate of return	9%	(2016: 9%)
Salary inflation rate	0%	(2016: 0%)
Net post-retirement interest rate	0%	(2016: 0%)
Normal retirement age	60 – 65 years	
Mortality		
Pre-retirement	SA 72-77 ultimate, with female rates equal to 70% of male rates	
Post-retirement	PA(90) minus 2, with ill-health (disability) retirements rated up by 10 years	

The assets of these schemes are held in separately administered funds and are broken down as follows:

The plan assets as a percentage (%) comprise:	MSRF	MSPF	SGPF
2017			
Equity securities			
Quoted (active market)	-	16	-
Debt securities			
Quoted (active market)	-	2	-
Quoted (inactive market) and unquoted	-	30	-
Property	-	3	-
Foreign assets			
Quoted (inactive market) and unquoted	-	8	-
Cash and cash equivalents	100	41	100
	100	**100**	**100**
2016			
Equity securities			
Quoted (active market)	-	17	-
Quoted (inactive market) and unquoted	-	1	-
Debt securities			
Quoted (active market)	-	6	-
Quoted (inactive market) and unquoted	-	29	-
Property	-	3	-
Foreign assets			
Quoted (inactive market) and unquoted	-	4	-
Cash and cash equivalents	100	40	100
	100	100	100

Income statement movement and future contributions
The total movement of R47 million (2016: R40 million) is recognised in the income statement in employee benefit costs (refer note 30). Future employer contributions are estimated to be minimal.

	2017 **Rm**	2016 Rm
20 EMPLOYEE BENEFIT OBLIGATIONS		
(a) Post-retirement medical benefits	**210**	303
(b) Other employee benefit obligations	**314**	291
(c) Cash-settled arrangements	**312**	354
	836	948
Current	**159**	247
Non-current	**677**	701
	836	948

Employee benefit expenses are included in the income statement. Refer to note 30.

(a) Post-retirement medical benefits

	2017	2016
Balance at beginning – unfunded	**303**	297
Current service costs	**2**	2
Interest expense	**29**	27
Actuarial losses - Other comprehensive income	**(21)**	(3)
Employer contributions	**-**	(19)
Transfers	**(71)**	-
Past service cost and gains and losses on settlements/ curtailments (expensed)	**(21)**	-
Benefits paid	**(11)**	(1)
Balance at end – unfunded	**210**	303

Valuation methodology

Liabilities for qualifying employees and current retirees are taken as the actuarial present value of all future medical contribution subsidies, using the long-term valuation assumptions. The current medical scheme contribution rates are projected into the future using the long-term healthcare inflation rate, while the value of the portion subsidised by the employer after retirement is discounted back to the valuation date using the valuation rate of interest. The projected unit credit method is used to calculate the liabilities.

The key valuation assumptions are:

Assumptions	**Base assumption**		**Change in significant assumption**	**Change in value of liability**	
				Decrease in significant assumption	**Increase in significant assumption**
				Rm	Rm
Healthcare cost inflation rate					
Defined benefit fund	9.00%	(2016: 9.00%)	1.00%	(21)	24
Valuation rate of interest/ discount rate	10.00%	(2016: 10.00%)	1.00%	10	(10)
Administration fee inflation	7.00%	(2016: 8.00%)			
Normal retirement age	60 years				
Mortality					
Pre-retirement	None				
Post-retirement	PA(90)-2				

The maturity profile of the undiscounted post-retirement medical benefit obligation as at 30 June is as follows:

	2017 Rm	2016 Rm
Current	**21**	79
Non-current	**189**	224
1 to 5 years	**132**	159
5 to 10 years	**36**	37
> 10 years	**914**	1 014
Effect of discounting	**(893)**	(986)
	210	303

	2017 Rm	2016 Rm
(c) Cash-settled arrangements		
Retention and remuneration schemes		
Balance at beginning	**354**	446
Additional provisions	**141**	130
Benefits paid	**(183)**	(222)
Balance at end	**312**	354
Current	**138**	168
Non-current	**174**	186
	312	354

Share schemes

MMI Long-term Incentive Plan (MMI LTIP)
Certain key senior staff members were identified as vital to the future success of the company, and its ability to compete in an ever changing environment. The purpose of the MMI LTIP is to incentivise and retain these key senior staff members. The MMI LTIP comprises two separate long-term incentives, the first being an award of performance units, and the second being a grant of retention units.

The performance units have performance criteria based on minimum hurdles related to the return on embedded value (ROEV) of the company. The units will therefore vest after a period of three years, and the company's performance will be averaged over the same period to determine whether the criteria have been met.

The retention units have no imposed performance criteria and therefore vest on award date subject to the employee maintaining satisfactory performance during the period between the award date and the settlement date. When the retention units and performance units have vested on the vesting date, they represent the right to receive a cash sum on the settlement date equal to the fair market price of an MMI share (average of 20 trading days before the settlement date).

The Remuneration Committee has approved that the dividends to be declared by MMI during the vesting period will accrue to participants in the form of additional value. The dividend value is added to the original offer in the form of additional units with the same vesting date as the original offer.

MMI Outperformance Plan (MMI OP)
The purpose of the plan is to motivate, reward and retain a small group of senior executives on a basis which aligns their interests with the company's targeted Return on Embedded Value (ROEV) of Nominal GDP + 6%. Participants are primarily awarded performance units (vesting subject to certain company and individual performance criteria being met), whilst participants that are responsible for risk management functions are awarded retention units (vesting subject to the individual's performance criteria being met).

The plan is a phantom incentive plan in that a participant shall not be entitled to MMI shares but rather to a cash sum from the employer calculated on the basis of the number of units which vest at the fair value market price of an MMI share (weighted average of 20 trading days before vesting date). Vesting of the performance units is dependent on the achievement of a minimum ROEV of Nominal GDP + 3% per annum over the vesting period, with 100% vesting achieved if the ROEV meets or exceeds Nominal GDP + 6% per annum.

The units were awarded on 5 March 2015 and have a final vesting date of 1 October 2019.

	MMI OP	**MMI OP**	**MMI LTIP**	**MMI LTIP**
	Performance units	**Retention units**	**Performance units**	**Retention units**
	'000	**'000**	**'000**	**'000**
Units in force at 1 July 2015	10 110	187	12 217	9 636
Units granted during year	674	13	6 151	5 622
Units transferred from / (to) other group companies during year	-	-	419	326
Units exercised/ released during year	-	-	(4 385)	(3 183)
Market value of range at date of exercise/release (cents)	-	-	2 228 - 2 960	2 228 - 2 960
Units cancelled/lapsed during year	(96)	-	(747)	(711)
Units in force at 30 June 2016	10 688	200	13 655	11 690
Units granted during year	**693**	**14**	**7 614**	**6 147**
Units transferred from / (to) other group companies during year	**-**	**-**	**366**	**210**
Units exercised/ released during year	**-**	**-**	**(4 455)**	**(3 737)**
Market value of range at date of exercise/release (cents)	-	-	2 216 - 2 506	2 216 - 2 506
Units cancelled/lapsed during year	**(1 218)**	**-**	**(1 501)**	**(1 507)**
Units in force at 30 June 2017	**10 163**	**214**	**15 679**	**12 803**

Shares outstanding (by expiry date) for the MMI LTIP and MMI OP are as follows:

2017	**MMI OP**	**MMI OP**	**MMI LTIP**	**MMI LTIP**
	Performance units	**Retention units**	**Performance units**	**Retention units**
	'000	**'000**	**'000**	**'000**
Financial year 2017/2018	-	-	4 117	3 536
Financial year 2018/2019	6 098	128	5 132	4 321
Financial year 2019/2020	4 065	86	6 430	4 946
Financial year 2020/2021	-	-	-	-
Total outstanding shares	**10 163**	**214**	**15 679**	**12 803**

Inputs used in valuation of the MMI share schemes

MMI LTIP	**Valuation assumptions include**			
	Outstanding tranche period in months	**Take-up rate on units outstanding**	**Current vesting rate**	**Share price at yearend**
Award date 25/09/2015 and vesting date 25/09/2017 - retention units (1)	3	94%	100%	20.24
Award date 01/10/2014 and vesting date 01/10/2017 - performance units	3	94%	87%	20.24
Award date 01/10/2014 and vesting date 01/10/2017 - retention units	3	94%	100%	20.24
Award date 01/04/2015 and vesting date 01/04/2018 - performance units	9	94%	87%	20.24
Award date 01/04/2015 and vesting date 01/04/2018 - retention units	9	94%	100%	20.24
Award date 01/10/2015 and vesting date 01/10/2018 - performance units	15	88%	60%	20.24
Award date 01/10/2015 and vesting date 01/10/2018 - retention units	15	88%	100%	20.24
Award date 04/04/2016 and vesting date 04/04/2019 - performance units	21	88%	60%	20.24
Award date 04/04/2016 and vesting date 04/04/2019 - retention units	21	88%	100%	20.24
Award date 30/06/2016 and vesting date 30/06/2019 - performance units	24	88%	60%	20.24
Award date 30/06/2016 and vesting date 30/06/2019 - retention units	24	88%	100%	20.24
Award date 25/09/2016 and vesting date 25/09/2018 - retention units (1)	15	82%	100%	20.24
Award date 01/10/2016 and vesting date 01/10/2019 - performance units	27	82%	30%	20.24
Award date 01/10/2016 and vesting date 01/10/2019 - retention units	27	82%	100%	20.24
Award date 01/04/2017 and vesting date 01/04/2020 - performance units	33	82%	30%	20.24
Award date 01/04/2017 and vesting date 01/04/2020 - retention units	33	82%	100%	20.24

(1) Relates to the deferral of short term incentives, above a specific threshold, into the MMI LTIP in the form of retention units

Vesting rate assumptions regarding performance units in the previous table and next table

MMI Long-term Incentive Plan (MMI LTIP)

There are two sets of performance criteria under the LTIP, both employing an absolute targeted Return on Embedded Value (ROEV): The oldest tranche in force (issued October 2014) measures the ROEV achieved against the average growth in nominal gross domestic product (GDP) over the vesting period, with a target of GDP + 3% and outperformance at GDP + 6%. Subsequent tranches measures ROEV against the Risk Free rate over the vesting period, with a target of risk free + 3% and outperformance at risk free + 6%. "Risk free" in this context refers to the 10-year zero coupon RSA government bond yield to maturity, averaged over the vesting period. The vesting period is three years.

As at 30 June 2017, the estimated vesting percentage of performance units issued October 2014 (vesting October 2017; measured against a GDP growth benchmark) was around 90% of face value. The estimated vesting percentage of performance units issued in subsequent periods (vesting from 2018 onwards; measured against a risk free yield benchmark) was around 40% of face value.

For a one percentage point increase in the return on embedded value achieved after 30 June 2017, it was estimated that an additional 13% of affected performance units under the LTIP will vest. This represents an additional cost of R32 million to the scheme.

MMI Outperformance Plan (MMI OP)

This scheme, restricted to a few key employees, targets a return on embedded value equal to the growth in nominal GDP + 6%. The vesting period is 4 to 5 years.

As at 30 June 2017, it was estimated that approximately 20% of the face value of performance units issued under the OPP scheme will vest in 2018 and 2019.

For a one percentage point increase in the return on embedded value achieved after 30 June 2017, the additional cost to the scheme is estimated at R21 million.

MMI OP	**Valuation assumptions include**			
	Outstanding tranche period in years	**Take-up rate on units outstanding**	**Current vesting rate**	**Share price at yearend**
Award date 05/03/2015 and vesting date 01/10/2018 - performance units	15	15%	88%	20.24
Award date 05/03/2015 and vesting date 01/10/2018 - retention units	15	100%	88%	20.24
Award date 05/03/2015 and vesting date 01/10/2019 - performance units	27	30%	82%	20.24
Award date 05/03/2015 and vesting date 01/10/2019 - retention units	27	100%	82%	20.24

Momentum Sales Scheme (MSS) and Momentum Sales Phantom Scheme (MSPS)

The Momentum Sales Scheme was set up specifically for the benefit of the sales staff. Allocations are made twice a year to sales staff reaching a certain minimum production level. The qualification criteria are reviewed annually. The benefits are linked to the value of MMI Holdings Ltd shares.

Allocations made before October 2013 vest equally over the third, fourth and fifth anniversary. During November 2013 Momentum Sales issued Phantom Shares. The share options previously issued will still be valid, but no further share options will be issued going forward. Allocations made since November 2013 have a 5 year vesting period. When the shares vest, the company will make a cash payment to the employee to the value of the share price on vesting date. No shares are issued by the company and therefore the scheme remains cash-settled.

	MSPS '000	MSS '000
Options in force at 1 July 2015	3 883	8 855
Granted at prices ranging between (cents)	-	1699-2256
Options granted during year	1 757	23
Granted at prices ranging between (cents)	2438-2438	1699-2100
Options exercised/ released during year	(6)	(3 903)
Market value of range at date of exercise/release	2 100	2304-2507
Options cancelled/lapsed during year	(404)	(450)
Granted at prices ranging between (cents)	2438-3298	1666-2256
Options in force at 2016	5 230	4 525
Granted at prices ranging between (cents)	-	1699-2256
Units/Options granted during year	**1 690**	**-**
Granted at prices ranging between (cents)	2196-2196	-
Units/Options exercised/ released during year	**(519)**	**(2 988)**
Market value of range at date of exercise/release	2216-2495	2234-2495
Units/Options cancelled/lapsed during year	**(262)**	**(85)**
Granted at prices ranging between (cents)	2438-3298	1666-2256
Units/Options in force at 2017	**6 139**	**1 452**

Shares outstanding (by expiry date) for the MSS and MSPS are as follows:

2017	**MSPS R'000**	**MSS R'000**
Financial year 2017/2018	1 149	3 014
Financial year 2018/2019	1 665	1 511
Financial year 2019/2020	1 724	-
Financial year 2020/2021	1 059	-
Financial year 2021/2022	542	-
Total outstanding shares	**6 139**	**4 525**

Valuation assumptions

	2017		2016	
	MSPS	**MSS**	MSPS	MSS
Share price	2286-3298	1996	2286-3298	2199
Volatility		13.03%-14.23%		13.7%-16.6%
Dividend yield		6.6%		6.2%
Forfeiture rate	5.0%	5.0%	5.0%	5.0%
Risk-free yield curve		7.14%-7.16%		7.2%-7.5%

Share based payment expense

The share based payment expense relating to cash settled schemes is R141 million (2016: R130 million) for the company and is disclosed under employee benefit expenses in note 30.

	2017 Rm	2016 Rm
21 OTHER PAYABLES		
Payables arising from insurance contracts and investment contracts with DPF	**4 831**	5 524
Claims in process of settlement		
Insurance contracts	**3 242**	4 417
Investment contracts with DPF	**820**	38
Premiums paid in advance	**740**	776
Due to reinsurers	**29**	293
Payables arising from investment contracts	**668**	156
Deferred revenue liability	**255**	250
Loans due to subsidiaries and fellow MMI Holdings Ltd subsidiaries	**67**	104
Commission creditors	**793**	778
Unsettled trades	**363**	703
Other payables	**1 838**	1 404
	8 815	8 919
Current	**7 841**	8 671
Non-current	**974**	248
	8 815	8 919
Reconciliation of deferred revenue liability		
Balance at beginning of year	**250**	244
Deferred income relating to new business	**74**	71
Amount recognised in income statement (refer to note 25)	**(69)**	(65)
Balance at end of year	**255**	250

	2017 Rm	2016 Rm
22 NON-CURRENT ASSETS AND LIABILITIES HELD FOR SALE		
Non-current assets held for sale		
Investment properties	**-**	470
	-	470

The non-current asset held for sale in 2016 relates to the sale of an investment property building, 4 Merchant Place, which was pending transfer at 30 June 2016. There were no non-current assets and liabilities held for sale at 30 June 2017.

	2017 Rm	2016 Rm

23 INCOME TAX
23.1 Current income tax (assets)/liabilities

	2017 Rm	2016 Rm
Current income tax assets	**(298)**	(321)
	(298)	(321)
Balance at beginning	**(321)**	(262)
Charged to income statement	**2 025**	1 516
Additional provisions	**1 820**	1 545
Additional prior year provision / (Unused amounts reversed)	**205**	(29)
Paid during year	**(2 002)**	(1 575)
Balance at end	**(298)**	(321)

23.2 Income tax (credits)/expenses

	2017 Rm	2016 Rm
Current taxation	**2 025**	1 516
Shareholder tax		
South African normal tax - current period	**1 094**	1 035
Foreign withholding tax	**2**	11
Tax on contract holder funds - current period	**724**	499
Tax on contract holder funds - prior period	**205**	(29)
Deferred tax	**(455)**	(366)
South African normal tax - current period	**(163)**	(75)
Contract holder tax	**(292)**	(291)
	1 570	1 150

Tax rate reconciliation	%	%
Tax calculated at standard rate of South African tax on earnings	**28.0**	28.0
Change in tax rate	**-**	5.7
Prior year adjustments	**4.8**	(0.8)
Taxation on contract holder funds	**10.0**	(1.7)
Foreign tax differential	**0.1**	0.2
Capital gains tax	**1.7**	(0.1)
Non-taxable income	**(9.9)**	(2.5)
Non-deductible expenses	**1.7**	2.0
Effective rate	**36.4**	30.8

24 NET INSURANCE PREMIUMS

	2017 Rm	2016 Rm
Premiums received	**21 052**	23 223
Long-term insurance contracts	**19 257**	20 253
Investment contracts with DPF	**1 795**	2 970
Premiums received ceded to reinsurers	**(2 831)**	(3 815)
	18 221	19 408

	2017 Rm	2016 Rm
25 FEE INCOME		
Contract administration	**2 350**	2 345
Investment contract administration	**2 281**	2 280
Release of deferred front-end fees	**69**	65
Trust and fiduciary services	**243**	589
Asset management	**-**	10
Retirement fund administration	**243**	579
Health administration	**2**	128
Other income	**245**	387
Scrip lending fees	**-**	2
Other	**245**	385
	2 840	3 449

	2017 Rm	2016 Rm
26 INVESTMENT INCOME		
Designated at fair value through income		
Dividend income – listed	**2 800**	2 243
Dividend income – unlisted	**335**	757
Dividends received from subsidiary companies	**351**	473
Interest income	**10 886**	9 891
Designated at fair value through income	**9 701**	8 846
Loans and receivables	**132**	120
Non-financial assets	**25**	-
Cash and cash equivalents	**1 028**	925
Rental income	**953**	849
Investment properties	**939**	847
Owner-occupied properties	**14**	2
Other income	**-**	1
	15 325	14 214

27 NET REALISED AND FAIR VALUE GAINS

	2017 Rm	2016 Rm
Financial instruments	**(1 887)**	14 205
Designated at fair value through income	**(2 196)**	13 799
Derivative financial instruments	**309**	406
Investment property	**197**	259
As per valuation	**205**	278
Change in accelerated rental income	**(8)**	(19)
Profit / (loss) on sale of subsidiary	**-**	(127)
Profit on sale of business	**94**	-
Fair value gains / (losses) on investment in subsidiary companies	**(30)**	13
Fair value gains / (losses) on investment in collective investment scheme subsidiaries	**1 196**	(1 990)
Fair value gains / (losses) on investment in collective investment scheme associates	**473**	(61)
Profit / loss on sale of fixed assets	**(4)**	(8)
Other investments	**89**	(3)
	128	12 288

28 NET INSURANCE BENEFITS AND CLAIMS

	2017 Rm	2016 Rm
Long-term insurance contracts	**17 612**	18 679
Death and disability claims	**8 319**	8 047
Maturity claims	**3 505**	4 496
Annuities	**3 353**	3 533
Surrenders	**2 352**	2 472
Terminations and withdrawal benefits	**13**	66
Other	**70**	65
Investment contracts with DPF	**3 654**	4 820
Death and disability claims	**77**	59
Maturity claims	**915**	847
Annuities	**315**	189
Surrenders	**418**	322
Terminations and withdrawal benefits	**1 927**	3 402
Other	**2**	1
	21 266	23 499
Amounts recovered from reinsurers	**(2 123)**	(2 564)
	19 143	20 935

29 DEPRECIATION, AMORTISATION AND IMPAIRMENT EXPENSES

	2017 Rm	2016 Rm
Depreciation	**104**	108
Owner-occupied properties (note 2)	**48**	44
Equipment (note 3)	**56**	64
Amortisation (note 1)	**56**	66
Value of in-force acquired	**33**	34
Customer relationships	**3**	4
Computer software - acquired	**6**	16
Computer software - internally developed	**14**	12
Impairment of intangible assets (note 1)	**76**	26
Computer software - internally developed	**76**	26
Impairment of owner-occupied properties below cost	**28**	2
Impairment of financial assets	**137**	97
Loans advanced	**137**	97
	401	299

30 EMPLOYEE BENEFIT EXPENSES

	2017 Rm	2016 Rm
Salaries	**2 312**	2 251
Contributions to medical aid funds	**109**	112
Defined benefit retirement fund	**-**	1
Defined contribution retirement fund	**168**	165
Post-retirement medical benefits	**5**	12
Retirement fund assets (note 19)	**(47)**	(40)
Share-based payment expenses (note 20)	**141**	130
Training costs	**42**	52
Other	**10**	11
	2 740	2 694

31 SALES REMUNERATION

	2017 Rm	2016 Rm
Commission incurred for the acquisition of insurance contracts	**1 978**	2 074
Commission incurred for the acquisition of investment contracts with DPF	**19**	24
Commission incurred for the acquisition of investment contracts without DPF	**899**	862
Amortisation of deferred acquisition costs	**285**	177
Movement in provision for impairment of amounts due from agents, brokers and intermediaries	**(6)**	(27)
	3 175	3 110

32 OTHER EXPENSES

	2017 Rm	2016 Rm
Asset management fees	**580**	533
Auditors' remuneration	**34**	43
Bank charges	**54**	63
Consulting fees	**260**	278
Direct property operating expenses on investment property	**402**	273
Information technology expenses	**331**	367
Marketing costs	**246**	266
Office costs	**329**	293
Operating lease charges	**46**	46
Other indirect taxes	**233**	265
Policy services	**47**	38
Travel and entertainment expenses	**114**	123
Other expenses and recoveries	**(618)**	(225)
	2 058	2 363

33 FINANCE COSTS

	2017 Rm	2016 Rm
Interest expense on liabilities at amortised cost		
Unsecured subordinated call notes	**351**	340
Carry positions	**408**	346
Other	**24**	26
	783	712

34 EARNINGS PER ORDINARY SHARE

Attributable to owners of the parent	Basic earnings 2017	2016
Earnings (cents per share)	**1 426**	1 341
Headline earnings (cents per share)	**1 503**	1 468
Core headline earnings (cents per share)	**1 741**	1 749

Reconciliation of headline earnings attributable to owners of the parent	Basic earnings 2017 Rm	2016 Rm
Earnings – equity holders of the company	**2 709**	2 547
Loss on sale of subsidiary	**-**	127
Profit on sale of business	**(73)**	-
Impairment of loans due from subsidiaries	**137**	95
Impairment of capital expenditure on owner-occupied buildings	**28**	1
Impairment of internally developed computer software	**54**	19
Headline earnings(1)	**2 855**	2 789
Net realised and fair value gains on excess	**13**	(88)
Basis and other changes, and investment variances	**384**	545
Amortisation of intangible assets relating to business combinations	**27**	27
Non-core share-based payment expenses	**(36)**	8
Other non-core expenses	**64**	43
Core headline earnings(2)	**3 307**	3 324
Weighted average number of ordinary shares in issue (million)	**190**	190

(1) Headline earnings
Headline earnings consist of operating profit, investment income, net realised and fair value gains, investment variances and basis and other changes.

(2) Core headline earnings
Core headline earnings disclosed comprise operating profit and investment income on shareholder assets. It excludes net realised and fair value gains on financial assets and liabilities, investment variances and basis and other changes that can be volatile, certain non-recurring items, as well as the amortisation of intangible assets relating to business combinations as this is part of the cost of acquiring the business.

35 CASH FLOW FROM OPERATING ACTIVITIES

35.1 Cash utilised in operations

	2017 Rm	2016 Rm
Profit before tax	**4 316**	3 730
Adjusted for		
Dividends received	**(3 412)**	(3 439)
Interest received	**(10 886)**	(9 891)
Finance costs	**783**	712
Net realised and fair value gains	**(1 813)**	(12 288)
Depreciation and amortisation expenses	**181**	174
Impairment charges	**213**	125
Deferred acquisition costs movement	**285**	(82)
Share-based payment and other employee benefit expenses	**141**	140
Staff and management bonuses liability	**179**	141
Leave pay liability	**10**	19
Financial liabilities at fair value through income	**396**	-
Reinsurance assets	**21**	(142)
Employee benefit assets and obligations	**(37)**	(38)
Deferred revenue liability movements	**(69)**	-
Accelerated rental income	**8**	19
Post-retirement medical benefit obligation	**(11)**	-
Changes in operating assets and liabilities		
Insurance and investment liabilities	**568**	10 389
Investment property	**-**	(278)
Assets designated at fair value through income	**9 112**	4 605
Investments in associate	**(4 406)**	3 966
Loans and receivables	**(1 295)**	429
Insurance and other receivables	**170**	(12)
Non-current assets held for sale	**470**	(470)
Change in employee benefit assets	**80**	-
Change in employee benefit obligations	**(432)**	(534)
Other operating liabilities	**(287)**	130
Cash utilised in operations	**(5 715)**	(2 595)

35.2 Income tax paid

	2017 Rm	2016 Rm
Due at beginning	**(1 099)**	(1 503)
Charged to income statement	**(1 570)**	(1 150)
Charged directly to other comprehensive income	**(29)**	(21)
Due at end	**696**	1 099
	(2 002)	(1 575)

	2017 Rm	2016 Rm
35.3 Interest paid		
Unsecured subordinated call notes	**(351)**	(340)
Carry positions	**(408)**	(346)
Other	**(24)**	(26)
	(783)	(712)

	2017 Rm	2016 Rm

36 CAPITAL AND LEASE COMMITMENTS

Capital commitments

There are no capital commitments as at 30 June 2017, nor were there any capital commitments as at 30 June 2016.

Lease commitments

The minimum future lease payments payable under non-cancellable operating leases on property and equipment:

	2017 Rm	2016 Rm
Less than 1 year	**-**	1
Between 1 and 5 years	**-**	-
	-	1

The minimum future lease payments receivable under non-cancellable operating leases on investment properties:

	2017 Rm	2016 Rm
Less than 1 year	**432**	474
Between 1 and 5 years	**914**	926
More than 5 years	**352**	389
	1 698	1 789

37 CONTINGENT LIABILITIES

The company is party to legal proceedings in the normal course of business and appropriate provisions are made when losses are expected to materialise.

38 RELATED PARTY TRANSACTIONS

38.1 Major shareholders and group companies

The holding company of MMI Group Limited is MMI Holdings Limited, and the major shareholder in MMI Holdings Limited is Rand Merchant Investment Holdings Limited (RMIH).

The most significant related parties of MMI Group Limited are Momentum Asset Management (Pty) Limited, Momentum Wealth (Pty) Limited, Momentum Ability Limited, MMI Health (Pty) Limited, Momentum Global Investment Management Limited, Momentum Short-term Insurance Limited, MMI Short-term Insurance Administration (Pty) Ltd, Momentum Wealth International Limited, MMI Multiply (Pty) Ltd, Momentum Consult (Pty) Ltd, 102 Rivonia Road (Pty) Ltd and Aconcagua 14 Investments (RF) (Pty) Ltd. Subsidiaries and associated companies of these companies are also related parties.

Significant subsidiaries of the company are listed in note 5, along with loans due to or from these entities.

Reinsurance premiums of R434 million (2016: R1 835 million) and reinsurance recoveries of R148 million (2016: R540 million) were respectively paid to and received from Momentum Ability Limited. In the prior year, a reinsurance asset of R168 million with Momentum Ability Limited was included in the reinsurance asset disclosed in note 8.

Asset management and asset administration fees of R431 million (2016: R415 million) were paid to other MMI group companies during the year.

Various collective investment schemes in which the company invests are defined as subsidiaries as the company controls them in terms of IFRS 10; these are listed in Annexure A. Collective investment schemes over which the company has significant influence but not control are classified as investments in associates carried at fair value; details are included in Annexure B.

Other related parties include directors, key management personnel and their families. Key management personnel for the company are defined as the executive and non-executive directors. It is not considered necessary to disclose details of key management family members and their influenced or controlled separate entities. To the extent that specific transactions have occurred between the company and these related parties (as defined in IAS 24), the details are included in the aggregate disclosure contained below under key management where full details of all relationships and terms of the transactions are provided.

38.2 Transactions with directors and key management personnel and their families

Remuneration in the form of fees is paid to non-executive directors and remuneration to executive directors and key management personnel of the company. Detailed director's remuneration is provided in Annexure C.

The aggregate compensation paid by the company or on behalf of the company to key management for services rendered to the company is:

	1 July 2016 to 30 June 2017	**1 July 2015 to 30 June 2016**
	Rm	Rm
Salaries and other short-term employee benefits	**14**	41
Post-employment benefits	**1**	3
Share-based payments	**27**	29
Director's fees	**9**	9
	51	82

The executive directors are members of the staff pension schemes and participate in the company's long-term retention schemes, the details of which are in notes 19 and 20.

Aggregate details of insurance and investment transactions between MMI Group Ltd and key management personnel, their families and entities significantly influenced or controlled by key management personnel are as follows:

	2017	
	Insurance	**Investment**
	Rm	**Rm**
Fund value (at 30 June 2017)	**N/A**	**79**
Aggregate life and disability cover (at 30 June 2017)	**79**	**N/A**
Deposits/premiums (for 12 months to June 2017)	**-**	**29**
Withdrawals/claims (for 12 months to June 2017)	**-**	**(51)**

	2016	
	Insurance	**Investment**
	Rm	**Rm**
Fund value (at 30 June 2016)	N/A	100
Aggregate life and disability cover (at 30 June 2016)	79	N/A
Deposits/premiums (for 12 months to June 2016)	-	7
Withdrawals/claims (for 12 months to June 2016)	-	4

In aggregate, the company earned fees and charges totalling R0.8 million (2016: R0.5 million) on the insurance, annuities and investment products set out above.

38.3 Dividends

The company declared a final ordinary dividend of R1 550 million (R8.17 per ordinary share) to MMI Holdings Limited for the year ended 30 June 2016, which was only provided for during the 2017 financial year, compared to a final ordinary dividend of R1 580 million (R8.33 per ordinary share) for the year ended 30 June 2015, which was only provided for during the 2016 financial year.

The company also declared R1 262.40 million (2016: R1 067.50 million) in interim ordinary dividends being R6.65 (2016: R5.63) per ordinary share to MMI Holdings Limited in March 2017 (2016: March 2016). Another R1 550 million (R8.17 per ordinary share) will be provided for during the 2018 financial year (as part of the final dividend declared in September 2017).

The declaration of preference dividends is calculated at a rate of 68% of the prime interest rate. The dividends declared to MMI Holdings Ltd in the current year amounted to R36 million (2016: R33 million).

38.4 Post-employment benefit plans

Refer to note 19 for details of the company's employee benefit plans.

39 FINANCIAL RISK MANAGEMENT

The risk philosophy, structures and management processes of the company recognise that managing risk is an integral part of generating sustainable shareholder value while at the same time enhancing the interests of all stakeholders. The importance of maintaining an appropriate balance between entrepreneurial endeavour and sound risk management practice is also taken into account.

While striving to create a competitive long-term advantage by managing risk as an enabler, the company simultaneously seeks to achieve higher levels of responsibility to all stakeholders.

The company is currently exposed to the following risks:

Insurance risk: Long-term insurance risk is the risk that future risk claims and expenses will cause an adverse change in the value of life insurance contracts. This can be through the realisation of a loss, or a 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.

Liquidity risk: Liquidity risk is the risk that the company, although solvent, will encounter difficulty in meeting obligations associated with financial and insurance liabilities (that are settled by delivering cash or another financial asset) as and when they fall due because of insufficient funds in the company, or because of the possibility that the company could be required to pay its liabilities earlier than expected as a result of unexpected policyholder behaviour. This might occur in circumstances where the company's assets are not marketable, or can only be realised at excessive cost. In respect of catastrophic events, there is also a liquidity risk associated with the timing differences between gross cash outflows and expected reinsurance recoveries.

Market risk: Market risk is the risk of financial loss due to adverse movements in the market value of assets supporting liabilities relative to the value of those liabilities, or due to a decrease in the net asset value, as a consequence of changes in market conditions or as a result of the performance of investments held. In certain instances these risks are passed on to policyholders, for example when financial instruments subject to market risk back contract holder liabilities.

Credit risk: Credit risk refers to the risk of loss or of adverse change in the financial position resulting directly or indirectly from the non-performance of a counterparty in respect of any financial or performance obligation due to deterioration in the financial status of the counterparty. It could also arise from the decrease in value of an asset subsequent to the downgrading of counterparties.

The purpose of the following section is to provide information on the processes in place to manage and mitigate the financial and insurance risks inherent in the contracts issued by the company.

39.1 Classes of assets and liabilities

The following table reconciles the assets in the statement of financial position to the classes and portfolios used for asset-liability matching by the company where assets are managed and performance is evaluated against mandates. Further disaggregation within a class is also provided where relevant.

	2017 Rm	2016 Rm
Assets		
Financial assets carried at fair value		
Designated at fair value through income		
Equity securities	**50 067**	58 347
Local listed	**49 440**	57 723
Foreign listed	**526**	445
Unlisted	**101**	179
Debt securities	**78 222**	85 753
Stock and loans to government and other public bodies		
Local listed	**33 194**	37 102
Foreign listed	**20**	24
Unlisted	**3 343**	3 061
Other debt securities		
Local listed	**19 862**	20 991
Foreign listed	**15**	99
Unlisted	**21 788**	24 476
Funds on deposit and other money market instruments	**12 914**	10 921
Unit-linked investments *(refer to next table for further detail)*	**121 597**	117 681
Collective investment schemes		
Local unlisted or listed quoted	**78 532**	80 313
Foreign unlisted or listed quoted	**26 678**	23 709
Foreign unlisted unquoted	**510**	504
Other unit linked investments		
Local unlisted or listed quoted	**7 348**	6 848
Local unlisted unquoted	**8 438**	6 291
Foreign unlisted or listed quoted	**30**	
Foreign unlisted unquoted	**61**	16
Investments in associates designated at fair value through income *(refer to next table for further detail)*	**18 848**	13 969
Derivative financial instruments	**2 382**	1 841
Held for trading	**2 382**	1 841
Held for hedging purposes	**-**	-
Interest in subsidiary companies	**59 431**	53 174
Collective investment schemes *(refer to next table for further detail)*	**55 528**	49 203
Subsidiary companies	**3 903**	3 971

Classes of assets and liabilities

	2017 Rm	2016 Rm
Financial assets carried at amortised cost		
Loans and receivables	**7 323**	6 339
Accounts receivable	**1 374**	1 284
Unsettled trades	**141**	344
Loans	**5 808**	4 711
Other receivables		
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**2 535**	2 705
Cash and cash equivalents	**14 054**	16 499
Other assets carried at fair value		
Owner-occupied properties	**1 851**	1 556
Investment properties	**6 639**	6 670
Non-current assets held for sale	**-**	470
Other assets not carried at fair value	**5 359**	5 581
Total assets	**381 222**	381 506

Categories of unit-linked investment

Unit-linked investments comprise local and foreign collective investment schemes as well as other unit-linked investments. Collective investment schemes are categorised into property, equity or interest-bearing instruments based on a minimum of 55% per category of the underlying asset composition of the fund by value. In the event of no one category meeting this threshold, it is classified as a mixed asset class. Money market collective investment schemes are categorised as such.

Unlisted and unquoted unit-linked instruments are mainly exposed to equity, comprising investments in hedge funds and private equity funds, or interest-bearing instruments, comprising mezzanine funding and structured guaranteed income products. Where the company is the contract holder of an investment contract at another insurer, but does not have title to the underlying investment assets, it is allocated to a mixed asset class.

	2017 Rm	2016 Rm
Collective investment schemes		
Local and foreign	**180 097**	167 697
Equity	**119 334**	111 751
Interest-bearing	**20 935**	18 395
Property	**8 121**	5 159
Mixed	**25 606**	27 132
Money market	**6 092**	5 224
Commodities	**9**	36
Other unit-linked investments	**15 876**	13 156
Local and foreign		
Equity	**3 531**	4 390
Interest-bearing	**2 126**	1 772
Mixed	**9 442**	6 236
Commodities	**777**	758
	195 973	180 853
Designated at fair value through income: unit-linked investments	**121 597**	117 681
Investments in associates designated at fair value through income	**18 848**	13 969
Investment in collective investment scheme subsidiaries	**55 528**	49 203
	195 973	180 853

The following table reconciles the liabilities in the statement of financial position to liability classes:

	2017 Rm	2016 Rm
Liabilities		
Carried at fair value		
Investment contracts		
Designated at fair value through income	**221 463**	218 927
Designated at fair value through income	**10 993**	10 808
Subordinated call notes	**3 602**	3 557
Carry positions	**7 391**	7 251
Derivative financial instruments	**1 758**	2 040
Held for trading	**1 758**	2 040
Other payables	**8 815**	8 919
Payables arising from insurance contracts and investment contracts with DPF (excluding premiums received in advance)	**4 062**	4 455
Payables arising from investment contracts	**668**	156
Unsettled trades	**363**	703
Other payables at amortised cost	**3 722**	3 605
Insurance contract liabilities	**96 613**	97 749
Investment contracts with DPF	**22 750**	23 581
Other non-financial liabilities	**1 830**	2 368
Total liabilities	**364 222**	364 392

40 CAPITAL MANAGEMENT

40.1 Capital management objectives

The key objectives of the company's capital management programme are:

- to manage the levels of capital across the company to keep these in line with the economic capital requirement for each operating division.
- to ensure that the level of capital reflects and is consistent with the company's risk profile and risk appetite.
- to maintain the optimal level of capital in the most cost efficient way. The optimal capital level is determined by balancing the needs of regulators, policyholders and shareholders. The optimal capital level aims to meet the company's strategic objective of maximising shareholder value, while at the same time considering the regulatory requirements and policyholder needs.
- to optimise the level of capital, the investment of the capital and the future use of this capital to the benefit of all stakeholders.
- to optimise the company's return on embedded value.
- to ensure that there is sufficient capital available for profitable business growth.

40.2 Capital management framework

The capital management framework rests on the following three pillars:

- the investment of capital
- the targeted level (and sources) of capital
- the allocation of capital to subsidiaries and divisions.

The current focus of the company is on the targeted (i.e. required) level of economic capital, given the anticipated changes in the regulatory environment.

40.3 Overview of capital management developments

40.3.1 Capital allocated to the company

The company holds sufficient capital as required for its particular business operations. The capital allocation therefore reflects the economic capital requirement of the company and satisfies the risk appetite as approved by the board of directors. The economic capital requirement represents a long-term view (i.e. it looks through the economic cycle).

The economic capital requirement for the company, is quantified using an internal capital projection model. The internal capital model uses stochastic modelling techniques to project the requirements for 5 years. The required level of the company reflects the approved risk appetite. The risk appetite depends on the inherent risk profile of the company.

The capital projection model is regularly revised to ensure appropriateness. Risks that are modelled explicitly include market risk, credit risk, insurance risk (including pandemic disease risk) and operational risk. The amount of capital held by the company is regularly compared to its economic capital requirement and the intention is to manage the actual capital level to be in line with the economic capital requirement.

The capital levels of the subsidiaries are based on operational requirements (subject to any regulatory capital requirements), taking into account new business targets.

Actions that have been used in the past to manage the capital level include share buy-back programmes, normal and special dividend payments, capital reductions, raising subordinated debt and issuing preference shares, as well as the consolidation of life-insurance and other licenses. All dividends and other capital reductions are approved by the various boards, as well as by the statutory actuary of the company.

40.3.2 Statutory capital requirement

The company must hold allowable capital of not less than the minimum prescribed statutory capital adequacy requirement (CAR). This prescribed minimum capital is available to meet obligations towards policyholders in the event of substantial adverse unexpected deviations from the (best-estimate) actuarial valuation assumptions.

The CAR and statutory surplus are determined in accordance with the requirements of the Financial Services Board ("FSB") and standards and practice notes as issued by the Actuarial Society of South Africa. It is a risk-based capital measure that is intended to provide a reasonable level of confidence that insurers will be able to meet their existing liabilities under adverse circumstances. The regulatory capital requirements of insurance companies outside South Africa are generally less stringent than South African CAR requirements.

The CAR is determined as the greater of the "termination CAR" and the "ordinary CAR". The termination CAR ensures that the insurer has sufficient capital to survive an adverse selective mass termination of contracts. The ordinary CAR includes provisions and scenario tests for a number of risks, including:

- financial risk from asset and liability mismatch under specified market movements (resilience test)
- random fluctuations in insurance and expense risks
- risk that long-term insurance and financial assumptions are not realised.

The capital adequacy requirement of the company is included in retained earnings and must be maintained as statutory capital.

Regulatory capital developments

The FSB is in the process of introducing a new solvency regime for the South African long-term and short-term insurance industries to be in line with European standards. To achieve this, the FSB launched its Solvency Assessment and Management ("SAM") project during 2010. The basis of the SAM regime will be the principles of the Solvency II Directive, as adopted by the European Parliament, but adapted to specific South African circumstances where necessary. The intention of the FSB's SAM project is to achieve third country equivalence status with the Solvency II regime.

It is expected that SAM will ultimately result in substantial changes to the South African insurance capital management landscape. The company is actively participating in the development and formulation of the new South African solvency standards and is also reviewing its internal economic capital models in light of local and international developments.

The company is in the process of preparing for the adoption of the SAM regulatory capital regime which will become applicable in 2018. During the 2018 calendar year the company will continue to focus on enhancements to SAM-affected processes and controls which are embedded in the day-to-day operations. The company has a sound process in place to monitor and identify developments in respect of new SAM legislative requirements. The company has seen better alignment, due to SAM implementation, in respect of stakeholder interests, including enhanced protection of policyholder benefits which is in line with the company's financial wellness strategy and client-centric operating model.

The company participated in the FSB's third Comprehensive Parallel Run and the results showed that the capitalisation level of the company is in line with that of the industry. The findings of the Comprehensive Parallel Run provided the company with a more informed view and improved understanding of the potential impact of SAM on its future capital position and management. Technical details of the SAM specifications are still being deliberated, and the outcome of these deliberations will be incorporated into the capital modelling process.

The FSB has also introduced certain minimum standards of risk management and governance through a Board Notice as well as a formal framework for insurance group supervision that will be provided for through the Twin Peaks process. The company participated in the Financial Services Board's third Pillar II readiness assessment and indications are that the company will be well positioned to deal with the requirements once effective.

Ultimately SAM will achieve better alignment of stakeholder interests, including enhanced protection of policyholder benefits.

40.3.3 Issuance of subordinated debt

The table below shows a summary of the company's subordinated unsecured callable notes in issue at 30 June 2017

Code	Amount issued (Rm)	Coupon rate	Tenor (years)	Date issued	Coupon type
MMIG01	750	3-month Jibar +1.46%	5	Mar 2014	Floating
MMIG02	750	10.065%	7	Mar 2014	Fixed
MMIG03	750	3-month Jibar +2.30%	5.5	Dec 2014	Floating
MMIG04	270	11.30%	10	Aug 2015	Fixed
MMIG05	980	10.86%	7	Aug 2015	Fixed

The company is comfortable with the current capital mix but will continue to pursue strategies to optimise the capital mix under SAM.

40.4 Sources of capital utilised

The table below analyses the sources of shareholder capital utilised by the company at 30 June:

MMI Group Ltd Regulatory capital	**2017** **Rm**	 **%**	2016 Rm	 %
Tier 1	**11 894**	**77**	12 698	78
- core tier 1 (i.e. equity capital)	**11 394**	**74**	12 198	75
- non-redeemable preference shares	**500**	**3**	500	3
Tier 2: subordinated qualifying debt	**3 602**	**23**	3 557	22
Qualifying statutory capital	**15 496**	**100**	16 255	100

40.5 Regulatory capital position

At 30 June 2017, the company's CAR was covered 2.71 times (2016: 3.04 times) by the excess of assets over liabilities (on the prescribed statutory valuation basis).

MMI Group Ltd Regulatory capital position	**2017** **Rm**	2016 Rm
Statutory excess over liabilities	**15 496**	16 255
CAR	**5 714**	5 351
CAR cover (times)	**2.71**	3.04

Regulatory Capital Position

The company's regulatory capital position deteriorated over the 12 months ended 30 June 2017 as a result of a 7% increase in the CAR with the surplus decreasing by 5%.

Statutory earnings of R2.1 billion were offset by dividends paid of R2.8 billion. Statutory impairments account for the difference between published and financial earnings.

The change in CAR is mainly attributed to a combination of the following factors

- the statutory balance sheet was more affected by a yield down stress than a yield up stress; a reversal in direction from the prior year;
- investment risk increased from a longer projection term for upper market risk business, lower funding levels and moving from yield-up to yield down;

- credit risk increased due to the sovereign credit downgrade, and including concentration risk for business previously transferred from Metropolitan Life Ltd. This was partially offset by a change in the credit risk calibration specified in the Standard of Actuarial Practice SAP104.
- release of discretionary margins against mortality risk.

40.6 Economic capital

The economic capital requirement for the company is based on an internal capital projection model (using stochastic modelling techniques). The capital allocation therefore reflects the economic capital requirement of the company and satisfies the risk appetite as approved by the relevant boards of directors. The intention is for the economic capital requirement to represent a long-term view (i.e. to look through the economic cycle).

Given that the SAM specifications have to a large extent been finalised and the resulting uncertainty around the ultimate impact of SAM on future capital requirements and capital management, the company deems it prudent at this stage to keep a capital buffer. The company also has a number of strategic initiatives that it is pursuing which will require capital. Based on future capital projections, the company is comfortable that the level of the capital buffer, after the payment of the ordinary final dividends, should be sufficient to meet future strategic requirements and the potential impact of SAM.

40.7 Credit ratings

The company appointed Moody's in October 2015 to review its credit ratings following the deregistration of Fitch Southern Africa by the FSB in September 2015. During the first half of 2017 the RSA sovereign credit ratings were downgraded by S&P (03 April 2017), Fitch Ratings (07 April 2017) and Moody's (09 June 2017).

On 12 June Moody's downgraded the global scale insurer financial strength rating of the company to Baa2. On 15 June 2017 Moody's affirmed MMIGL's national scale ratings as per the table below:

	Type	Global scale	National scale
MMI Group Ltd	Insurer Financial Strength	Baa2	Aaa.za
MMI Group Ltd subordinated debt	N/A	Ba1	Aa2.za

Moody's commented that "MMIGL's Baa2, negative, global scale, and Aaa.za national scale, IFS ratings reflect the insurer's top tier market position in South Africa, its solid capital position and its flexible product characteristics which serve to reduce the impact on the group from stress related to credit pressures at the sovereign level. These strengths are partially offset by the group's exposure to South Africa, both in the form of its invested assets and revenues, which are susceptible to the pressure on the domestic economy, and lower insurance profit margins relative to peers."

41 INSURANCE AND INVESTMENT BUSINESS

The table below reconciles the contract holder liabilities for each category to the total liability in the statement of financial position. Each category represents distinct financial risks. Some categories may include both insurance and investment contracts.

2017	Insurance	Investment with DPF	Investment	Total
	Rm	Rm	Rm	Rm
Contracts with DPF	39 129	22 398	19	61 546
Individual contracts with DPF	30 995	6 020	-	37 015
Smoothed bonus	22 083	6 020	-	28 103
Conventional with-profit	8 912	-	-	8 912
Group contracts with DPF	8 134	16 378	19	24 531
Smoothed bonus	-	15 227	-	15 227
Smoothed bonus – fully vesting	-	896	-	896
With-profit annuity	8 134	255	19	8 408
Market-related business	17 726	157	209 944	227 827
Individual market-related business	16 171	157	138 196	154 524
Group market-related business	1 555	-	71 748	73 303
Other business	39 758	195	11 500	51 453
Non-profit annuity business	32 673	-	1 870	34 543
Guaranteed endowments	27	-	9 623	9 650
Other non-profit business	7 058	195	7	7 260
Total contract holder liabilities	96 613	22 750	221 463	340 826

2016	Insurance	Investment with DPF	Investment	Total
	Rm	Rm	Rm	Rm
Contracts with DPF	39 663	23 234	20	62 917
Individual contracts with DPF	32 434	6 335	-	38 769
Smoothed bonus	23 293	6 335	-	29 628
Conventional with-profit	9 141	-	-	9 141
Group contracts with DPF	7 229	16 899	20	24 148
Smoothed bonus	-	15 657	-	15 657
Smoothed bonus – fully vesting	-	888	-	888
With-profit annuity	7 229	354	20	7 603
Market-related business	19 534	164	207 923	227 621
Individual market-related business	18 065	164	137 877	156 106
Group market-related business	1 469	-	70 046	71 515
Other business	38 552	183	10 984	49 719
Non-profit annuity business	31 878	-	2 566	34 444
Guaranteed endowments	112	-	8 407	8 519
Structured products	-	-	3	3
Other non-profit business	6 562	183	8	6 753
Total contract holder liabilities	97 749	23 581	218 927	340 257

41.1 Classes of insurance and investment business

The different classes of business are discussed below:

Contracts with discretionary participation features (DPF)

- Bonuses are declared taking into account a number of factors, including actual investment returns, previous bonus rates declared and contract holders' reasonable expectations. Bonuses are generally designated as vesting bonuses, which cannot be removed or reduced on death or maturity, or non-vesting bonuses, which can be removed or reduced. Declared bonuses are usually a combination of both vesting and non-vesting bonuses, although for certain classes of business declared bonuses are all vesting.

- All long-term insurers that write discretionary participation business are required by the Financial Services Board to define, and make publicly available, the principles and practices of financial management (PPFM) that they apply in the management of their discretionary participation business. In accordance with this the company has issued PPFM documents on all discretionary participation portfolios detailing the investment strategies and bonus philosophies of the portfolios. In addition, management reports are submitted to the discretionary participation committee (a subcommittee of the board) on an annual basis with regard to the compliance with the PPFM.

- For smoothed bonus business, bonus stabilisation accounts (BSAs) are held equal to the difference between the fund accounts, or the discounted value of projected future benefit payments for with-profit annuity business, and the market value of the underlying assets. A positive BSA is the undistributed surplus in the asset portfolio that is earmarked for future distribution to contract holders. The full value of the underlying assets is recognised as a liability.

- If the smoothing process has resulted in a negative BSA because of a downward fluctuation in the market value of the backing assets, the liabilities are reduced by the amount that can reasonably be expected to be recovered through under-distribution of bonuses during the ensuing three years, provided that the statutory actuary is satisfied that if the market values of assets do not recover, future bonuses will be reduced to the extent necessary. The company is exposed to market and operational risk to the extent that a negative BSA cannot reasonably be expected to be recovered through under-distribution of bonuses during the ensuing three years.

- Short term derivative hedging strategies may be utilised at times to protect the funding level of the smoothed bonus portfolios against significant negative market movements. These strategies would be implemented by the underlying asset managers in consultation with management.

The major classes of smoothed bonus business are:

- Metropolitan Retail individual smoothed bonus business (open to new business).
- Momentum Employee Benefits smoothed bonus business (open to new business).
- Momentum Employee Benefits with-profit annuity business (open to new business).
- Momentum Retail traditional smoothed bonus business sold on an individual life basis as part of universal life investment option, with annual bonuses declared in arrears (closed to new business).
- Momentum Retail traditional smoothed bonus business sold on an individual life basis as investment options on the Investo and Wealth platforms, with annual bonuses declared in arrears (open to new business).
- Momentum Retail fully vesting smoothed bonus business sold on both an individual and an institutional basis, with monthly bonuses declared in advance (open to new business).

- As at 30 June 2017, the market value of underlying assets as a percentage of accumulated fund accounts was greater than 92.5% for all these classes of smoothed bonus business.

- The shareholders earn management fees as a percentage of the fair value of the asset portfolio. To the extent that the assets are subject to interest rate and market price risk, these fees are volatile, although always positive. In addition shareholders earn fees as a percentage of the investment return on certain asset portfolios over the period. Due to fluctuations in investment returns over periods, these fees are volatile and can be negative.

Market-related business
Market related or unit-linked contracts are those invested in portfolios where there is a direct relationship between the returns earned on the underlying portfolio and the returns credited to the contract. These may be investment contracts or insurance contracts, and include universal life contracts that also provide cover on death or disability.

- The company holds the assets on which unit prices are based in accordance with policy terms and conditions.
- Policyholders carry the investment risk; however, the company carries a risk of reduced income from fees where these are based on investment returns or the underlying fund value, or where investment conditions affect its ability to recoup expenses incurred. Furthermore, there is also the reputational risk if actual investment performance is not in line with policyholders' expectations. These risks are managed through the rigorous investment research process applied by the company's investment managers, which is supported by technical as well as fundamental analysis.
- The shareholders earn management fees as a percentage of the fair value of the asset portfolio. To the extent that these assets are subject to interest rate and market price risk, these fees are volatile, although always positive. In addition shareholders earn fees as a percentage of the investment return on certain asset portfolios over the period. Due to fluctuations in investment returns over periods, these fees are volatile and can be negative.
- The liabilities originating from market-related investment contracts are measured with reference to their respective underlying assets. Changes in the credit risk of the underlying assets impact the measurement of these liabilities.

Non-profit annuity business

- Benefit payments on non-profit annuities are fixed and guaranteed at inception (except to the extent that they are exposed to mortality insurance risk).
- Payments normally cease on death of the insured life or lives, but different options, such as guaranteed payment periods and maximum payment terms, are offered to policyholders.
- In order to reduce market risk, projected liability outflows on annuity business are closely matched by an actively managed combination of bonds of appropriate duration and interest rate derivatives. Any residual mismatch profit or loss as well as any credit risk for these policies is borne by the shareholder.

Guaranteed endowments (insurance and financial instrument business)
Insurance

- Guaranteed endowments are typically five-year term contracts with fixed benefit payments that are guaranteed at inception. The benefit on death is the greater of the initial investment amount and the market value of the underlying assets. The guaranteed benefits are closely matched from inception by instruments of appropriate nature and duration.
- Credit risk for these policies is borne by the shareholder. In cases where structured assets back this business, they will have a credit rating that corresponds to senior bank debt, equivalent to a long-term national scale rating of A+.

Financial instruments

- Certain guaranteed endowments pay the market value of the underlying assets on death as well. The death benefit is not guaranteed and these endowments are therefore accounted for as financial instruments.

Structured products (financial instruments)

- The company issues tranches of term contracts whose benefits are defined in terms of specified financial variables. A specific asset structure to match the financial liability is created for each tranche.
- Credit risk for these policies is borne by the contract holder. The structured assets backing this business have a credit rating that corresponds to senior bank debt, equivalent to a long-term national scale rating of A+.

Other non-profit business

- These are primarily insurance contracts of varying duration as well as inflation-linked annuities.
- Backing assets are duration matched according to the tax-adjusted modified term of the liabilities.
- For insurance contracts, the average discount rate used in calculating contract holder liabilities for the company is 11.58% (2016: 11.35%).
- The investment contract liability is primarily in respect of inflation-linked benefits, which are discounted using a real yield curve. The average real yield that produces the same result is 1.8% (2016: 1.8%) for the company.

Investment guarantees

- A minimum guaranteed maturity value is attached to the majority of the individual DPF business and some of the individual market-related business.
- In addition, all DPF business has a minimum death or maturity value equal to the vested benefits.
- Investment guarantees on death and early termination are also provided and some older blocks of retirement annuity business have attaching guaranteed annuity options on maturity. These give contract holders the right to purchase conventional annuity contracts at guaranteed rates specified at the inception dates of the retirement annuity contracts. The liabilities in respect of these types of guarantee are much less significant than the liabilities in respect of minimum guaranteed maturity values.

- The liabilities in respect of investment guarantees are sensitive to interest rate and equity price movements as well as market implied volatilities and are valued using accepted proprietary models in accordance with market-consistent valuation techniques as set out in APN110 – Allowance for embedded investment derivatives. Refer to note 17.
- Currently certain structures are in place to partially match movements in this liability. However, it is not possible to fully match these guarantees due to the long-term nature of the guarantees provided and the lack of corresponding financial instruments in the market with similar durations.

41.2 Insurance risk

Long-term insurance risk is the risk that future risk claims and expenses will cause an adverse change in the value of insurance contracts. This can be through the realisation of a loss, or a change in insurance liabilities. The value of insurance contracts is the expectation in the pricing and/or liability of the underlying contract where insurance liabilities are determined using an economic boundary. Insured events are random and the actual number and amount of claims and benefits will vary from year to year. Statistically, the larger the portfolio of similar insurance contracts, the smaller the relative variability around the expected outcome will be. Similarly, diversification of the portfolio with respect to risk factors reduces insurance risk.

Insurance risk management

The statutory actuary has a duty under the Long-term Insurance Act, 52 of 1998, to ensure that a legal entity remains solvent and able to meet liabilities at all times. The statutory actuary reports on these matters to the board, audit committee and the Financial Services Board. The actuarial committee supports the statutory actuary in his responsibility for the oversight of insurance risk. The actuarial committee has been appointed by the board to ensure that the technical actuarial aspects specific to insurance companies are debated and reviewed independently.

In determining the value of insurance liabilities, assumptions need to be made regarding future rates of mortality and morbidity, termination rates, expenses and investment performance. The uncertainty of these rates may result in actual experience being different from that assumed and hence actual cash flows being different from those projected. In the extreme, actual claims and benefits may exceed the liabilities. The financial risk is partially mitigated through the addition of margins, especially where there is evidence of moderate or extreme variation in experience.

Reinsurance agreements are used as a primary risk mitigation tool, particularly in terms of insurance risks that are not well understood or fall outside the company's risk appetite.

The main insurance risks, as well as the company’s approach to the management of these risks, are set out below.

41.2.1 Demographic risks

The risk of adverse change in the value of insurance contracts arising from changes in the level, trend, or volatility of demographic rates in respect of insurance obligations where a change in demographic rates lead to an increase in the value of insurance liabilities or claims. Underwriting processes are in place to manage exposure to these risks. The most significant measures are:

- Premium rates are required to be certified by the statutory actuary as being actuarially sound.
- Regular experience investigations are conducted and used to set premium rates and valuation assumptions.
- Reinsurance arrangements are negotiated in order to limit the risk from an individual contract or aggregation of contracts.

The nature of risks varies depending on the class of business. The material classes of business most affected by these risks are discussed below.

Individual insurance business

- These are contracts providing benefits on death, disability, accident, medical events and survival that are sold directly to individuals. These contracts may also bear significant financial risk.
- Factors affecting demographic risks for individual insurance business:
  - The most significant factors that could substantially increase the frequency of claims are epidemics or widespread changes in lifestyle (smoking, exercise, eating, sexual practices), resulting in more or earlier claims.
  - Economic conditions can potentially affect retrenchment claims as well as morbidity claims where benefits are determined in terms of the ability to perform an occupation.
  - Medical advances can potentially affect the size and severity of medical claims (including critical illness claims).
  - Anti-selection such as where a client who has a pre-existing condition or disease purchases a product where a benefit will be paid on death or in the event of contracting such a disease.
  - The effect of selective terminations which means policyholders are less likely to terminate voluntarily if the cover is more likely to be needed in the foreseeable future.
  - Concentration risk, which is the risk due to exposure to a large number of claims from a single event or to a particular geographical area.

Demographic risks are managed as follows:

- Risk premiums on most smoothed bonus and market-related contracts may be adjusted within the terms and conditions of the contracts. The ability of the company to adjust these charges so that on average they reflect actual mortality experience, reduces mortality risk. There is residual mortality risk resulting from delays in identifying worsening experience and adjusting charges as well as marketing pressures.
- To reduce cross-subsidisation of risks, and the possibility of anti-selection, premium rates differentiate on the basis of some or all of age, gender, occupation, smoker status, education, income level, geographic region and the results of underwriting investigations. Experience investigations have shown these are reliable indicators of the risk exposure.
- A guarantee period shorter than the policy term applies to most risk business, and enables the company to review premium rates on in-force contracts during the life of the contracts. The guarantee period on whole-life products is generally within the range of 10 to 15 years.
- All policy applications are subject to underwriting rules. Applications for risk cover above certain limits are reviewed by experienced underwriters and evaluated against established standards.
- Compulsory testing for HIV is carried out in all cases where the applications for risk cover exceed limits specified for a product. Where HIV tests are not required, this is fully reflected in the pricing and experience is closely monitored.
- Underwriting is done to identify non-traditional risks and take appropriate action, such as applying additional premium loadings or altering benefit terms.
- Mortality on non-profit annuities is monitored and future mortality improvements are allowed for in the pricing.
- Additional provisions are held in respect of the potential deterioration of the mortality experience of supplementary benefits and direct marketing business.
- Reinsurance agreements are used to limit the risk on any single policy and aggregation of policies. Sums assured above a negotiated retention level are reinsured on a risk premium basis. Facultative arrangements are used for substandard lives and large sums assured.
- Momentum Retail typically retains 85% of the risk on amounts of cover not exceeding R5 million on individual lives that are medically underwritten and that are not members of employee benefit schemes. Amounts of cover in excess of R5 million are typically fully reinsured.
- Metropolitan Retail has a number of different reinsurance structures in place, depending on the type of product, the size of the risks involved and the experience in this type of business. The two structures mostly used are surplus retention where, generally, amounts of up to R1.5 million are retained with the full amount above that reinsured, and risk premium reinsurance on a constant retention basis up to a maximum retention limit of R400 000. Reinsurance is in place for fully underwritten and limited underwriting products, but excludes funeral products which are not reinsured.
- Concentration risk is reduced by diversification of business over a large number of uncorrelated risks and several classes of insurance, as well as by taking out catastrophe reinsurance. The company's catastrophe reinsurance cover for the current financial year is R750 million (2016: R750 million) in excess of R20 million of the total retained sum assured for any single event involving three or more lives.

The following table shows the distribution of number of annuitants by total amount per annum:

	2017			2016		
Sum insured per benefit	**Number of benefits**	**Amount (gross)**	**Amount (net)**	**Number of benefits**	**Amount (gross)**	**Amount (net)**
(Rands)		**Rm**	**Rm**		**Rm**	**Rm**
0 - 20 000	**2 596 970**	**18 090**	**17 530**	8 551 066	68 807	17 730
20 001 - 50 000	**881 292**	**26 323**	**25 193**	1 670 545	53 099	24 807
50 001 - 100 000	**262 526**	**17 552**	**14 832**	721 582	50 671	14 630
100 001 - 200 000	**128 436**	**21 256**	**15 615**	372 857	56 462	16 907
200 000 - 500 000	**206 499**	**69 098**	**49 129**	326 903	107 039	51 245
500 001 - 1 000 000	**231 747**	**126 978**	**93 221**	253 412	140 855	92 647
>1 000 000	**448 316**	**898 596**	**503 737**	430 825	841 984	468 623
	4 755 786	**1 177 893**	**719 257**	12 327 190	1 318 917	686 589

Group insurance business

- These are contracts that provide life and/or disability cover to members of a group (eg clients or employees of a specific company).
- Typical benefits are:
  - life insurance (mostly lump sum, but including some children and spouse's annuities);
  - disability insurance (lump sum and income protection);
  - dread disease cover;
  - continuation of insurance option.
- Factors affecting these risks and how they are managed:
  - Contracts are similar to individual insurance contracts but there is greater risk of correlation between claims on group schemes because the assured lives live in the same geographical location or work in the same industry; hence a higher degree of concentration risk exists.
  - Underwriting on group business is much less stringent than for individual business as there is typically less scope for anti-selection. The main reason for this is that participation in the group's insurance programmes is normally compulsory, and as a rule members have limited choice in the level of benefits. Where choice in benefits and levels is offered, this is accompanied by an increase in the level of underwriting to limit anti-selection.
  - Groups are priced using standard mortality and morbidity tables plus an explicit AIDS loading. The price for an individual scheme is adjusted for the following risk factors:
    - Region
    - Salary structure
    - Gender structure
    - Industry
  - For large schemes (typically 200 or more members), a scheme's past experience is an important input in setting rates for the scheme. The larger the scheme, the more weight is given to the scheme's past experience.
  - Rate reviews take into account known trends such as worsening experience due to AIDS.
  - To manage the risk of anti-selection, there is an 'actively at work' clause, which requires members to be actively at work and attending to their normal duties for cover to take effect. This could be waived if the company takes over a scheme from another insurer for all existing members. In addition, a pre-existing clause may apply, which states that no disability benefit will be payable if a member knew about a disabling condition within a defined period before the cover commenced and the event takes place within a defined period after cover has commenced.
  - There is a standard reinsurance treaty in place covering group business.
  - Lump sum benefits in excess of R5 million and disability income benefits above R50 000 per month are reinsured.
  - There are some facultative arrangements in place on some schemes where a special structure is required, for example a very high free cover limit or high benefit levels.

- In addition, there are catastrophe treaties in place. Such a treaty is particularly important for group risk business as there are considerably more concentrations of risks compared to individual business.

The table below shows the concentration of group schemes by scheme size (as determined by the number of lives covered).

Lives covered by scheme	2017	2016
0 - 1 000	**7 792**	7 650
1 001 - 5 000	**225**	252
>5 000	**96**	88

Annuity business

- Annuity contracts provide a specified regular income in return for a lump sum consideration. The income is normally provided for the life of the annuitant. In the case of a joint-life annuity, the income is payable until the death of the last survivor. The income may furthermore be paid for a minimum guaranteed period and may be fixed or increased at a fixed rate or in line with inflation. The mortality risk in this case is that the annuitants may live longer than assumed in the pricing of the contract.
- Factors affecting these risks
  - increased longevity due to medical advances and improvement in social conditions
  - selection bias – individuals purchasing annuities are in better health and therefore live longer than assumed in the pricing basis.
- How risks are managed:
  - Pricing assumptions are based on international mortality tables, with an allowance for improving mortality trends.
  - Mortality on non-profit annuities is monitored and future mortality improvements are allowed for in the pricing.
  - Annuity products are sometimes sold in combination with whole life cover, which provides a natural hedge against longevity and mortality risk.
  - Premium rates differentiate on the basis of age and sex.

The following table shows the distribution of number of annuitants by total amount per annum:

	2017		2016	
Annuity amount per annum (Rands)	**Number of annuitants**	**Total amount per annum**	**Number of annuitants**	**Total amount per annum**
		Rm		**Rm**
0 - 10 000	**74 177**	**319**	77 961	331
10 001 - 50 000	**47 104**	**1 066**	47 216	1 058
50 001 - 100 000	**10 970**	**764**	10 689	743
100 001 - 200 000	**5 620**	**770**	5 254	721
>200 000	**3 159**	**1 163**	2 822	1 018
	141 030		143 942	

Permanent health insurance business

The company also pays permanent health insurance (PHI) income to disabled employees, the bulk of which is from employee benefit insured schemes. The income payments continue to the earlier of death, recovery or retirement of the disabled employee. There is, therefore, the risk of lower recovery rates or lower mortality rates than assumed, resulting in claims being paid for longer periods. Ongoing claims in payment are reviewed annually to ensure claimants still qualify and rehabilitation is managed and encouraged.

41.2.2 Contract persistency risk

- Persistency risk relates to the risk that policyholders may cease or reduce their contributions or withdraw their benefits and terminate their contracts prior to the contractual maturity date of a contract.
- Expenses such as commission and acquisition costs are largely incurred at outset of the contract. These upfront costs are expected to be recouped over the term of a contract from fees and charges in respect of the contract. Therefore, if the contract or premiums are terminated before the contractual date, expenses might not have been fully recovered, resulting in losses being incurred. As a result, the amount payable on withdrawal normally makes provision for recouping any outstanding expenses from intermediaries. However, losses may still occur if the expenses incurred exceed the expected recoveries, which normally happens early on in the term of recurring premium policies or where the withdrawal amount does not fully allow for the recovery of all unrecouped expenses. This may either be due to a regulatory minimum applying, or to product design.
- Terminations can have the effect of increasing insurance risk, eg contract holders whose health has deteriorated are less likely on average to terminate a contract providing medical, disability or death benefits.

Factors affecting the risk:

- Economic conditions - economic hardship can cause an increase in terminations due to a reduced ability to afford premiums or a need for funds.

How risks are managed:

- In addition to setting realistic assumptions with regard to termination rates (rates of lapse, surrender and paid up experience) based on the company’s actual experience, capital is set aside to cover the expected cost of any lost charges when policyholders cease their premiums or terminate their contracts. In addition, efforts are in place to actively retain customers at risk of departure due to a lapse, surrender or maturity, specifically customer retention programs.
- Where withdrawal benefits are payable on termination, these can be adjusted to recover certain expenses. However, market and legislative forces may restrict the extent to which this may be done in future.
- Persistency rates are measured on a monthly basis by a variety of factors and retention strategies are implemented on an ongoing basis based on this information.
- Commission paid on many products with investment contract features is closely aligned to premium collection and the terms of the contract, therefore reducing the risk of non-recovery of commission on new policies subsequently cancelled or paid up, which may improve persistency.

41.2.3 Expense risk

There is a risk that the company may experience a loss due to actual expenses being higher than that assumed when pricing and valuing policies. This may be due to inefficiencies, higher than expected inflation, lower than expected volumes of new business or higher than expected terminations resulting in a smaller in-force book size.

The company performs expense investigations annually and sets pricing and valuation assumptions to be in line with actual experience and budgets, with allowance for inflation. The inflation assumption furthermore allows for the expected gradual shrinking of the number of policies arising from the run off of books, arising from past acquisitions and closed to new business.

41.2.4 Business volume risk

There is a risk that the company may not sell sufficient volumes of new business to meet the expenses associated with distribution and administration. A significant portion of the new business acquisition costs are variable and relate directly to sales volumes. The fixed cost component can be scaled down if there is an indication of a permanent decline in business volumes, but this will happen over a period of time. A further mitigating factor is that the distribution channels used to generate new insurance and investment business are also used to distribute other product lines within the company.

41.2.5 Retrenchment risk

Retrenchment risk is the risk of loss, or of adverse changes in the value of insurance contracts, resulting from changes in the level, trend or volatility of retrenchment inception rates used in pricing and valuing retrenchment benefits provided under policies. The company has some exposure to retrenchment risk, and will consider future opportunities which provide adequate risk adjusted return and can be appropriately mitigated. The risk is seen as an enabler to get more exposure to other risks to which the company has a risk seeking attitude. When writing retrenchment risk, the company carefully considers the design of benefits, benefit term, premium guarantees as well as the expected diversification across employers and industries.

42 FINANCIAL RISK INHERENT IN CONSOLIDATED COLLECTIVE INVESTMENT SCHEMES AND FUND OF ALTERNATIVE FUNDS

The company consolidates a number of collective investment schemes and fund of alternative funds as a result of exercising control over these schemes, and the company risk management framework is therefore applicable to the risk management of the schemes. Refer to Annexure A for information on the schemes consolidated.

Because of the specific nature of the business of the schemes, the risk management principles may be applied differently to managing the risks relevant to the schemes from how the overall financial risks are managed. This section describes how the financial risk management of the schemes differs from the overall financial risk management.

The management company of the scheme has a dedicated independent risk unit that continuously monitors the overall risk of the portfolios against stated mandate limits and the portfolio risk appetites over time. To avoid conflicts of interest, the unit is separate from the investment team and reports directly to the Chief Operating Officer of the management company.

When considering any new investment for a scheme, the risks and expected returns are critical elements in the investment decision. Before an instrument is included in a portfolio, risks are carefully considered at instrument and portfolio level. The scheme mandate is also assessed.

A portfolio's market risk appetite is measured as a function of current market conditions and a benchmark, which translates into a targeted tracking error that is monitored by the independent risk unit.

Credit and liquidity risk are mitigated through diversification of issuers in line with the policy. All amounts disclosed include amounts attributable to the consolidated collective investment schemes and fund of alternative funds.

The collective investment schemes not consolidated are included in the table in note 39.1 as collective investment schemes and investments in associates designated at fair value through income.

43 LIQUIDITY RISK

Liquidity risk governance

Liquidity risk for the company is managed in terms of the market and liquidity risk management policy, which is a policy of the enterprise risk management function.

The executive Balance Sheet Management committee (executive BSM) is responsible for the company's liquidity and funding risk management with the BSM Advisory Committee providing oversight and non-executive advisory support for funding and liquidity risk assumed in the company's statement of financial position on behalf of shareholders. This includes the funding and liquidity risk on guaranteed and non-profit policyholder liabilities, and shareholder portfolios.

Liquidity risk management

The principal risk relating to liquidity comprises the company's exposure to policyholder behaviour, eg unanticipated benefit withdrawals or risk-related claims. The insurance and investment contract liabilities comprise 94% (2016: 93%) of the liabilities of the company. Management of the liquidity risk thereof is described below in terms of policyholder benefits.

Policyholder liabilities

Guaranteed policyholder benefits

Guaranteed endowments, structured products and annuities have very specific guaranteed repayment profiles. The expected liability outflow is matched by assets that provide the required cash flows as and when they become payable. The liquidity risk arising from the liabilities in respect of embedded investment guarantees (APN 110 liability) is managed by backing these liabilities with sufficiently liquid financial instruments.

Non-profit annuities policyholder benefits

These contracts provide guaranteed annuity benefits and all liquidity risks arising from these contracts are borne by the shareholders. The expected liability outflow is matched as closely as possible with assets of an appropriate nature and term in order to match the duration and convexity of the portfolio and thus mitigate the interest rate risk exposure. The liquidity risk is thus mitigated by ensuring that expected liability cash flows are matched with sufficiently liquid assets of appropriate nature and term. The asset portfolio is a diversified portfolio of liquid cash and fixed-interest instruments (government bonds, corporate bonds, interest rate swaps and promissory notes) that closely matches the liquidity profile of the liability cash flow and this mitigates the liquidity risk.

The asset portfolio is a diversified portfolio of liquid cash and fixed interest instruments (government bonds, corporate bonds, interest rate swaps, promissory notes) that closely matches the liquidity profile of the liability cash flow and this mitigates the liquidity risk.

Unitised and smoothed-bonus policyholder benefits

These benefits are determined mainly by reference to the market value of underlying assets. On maturity of policy contracts, assets are disposed of in the market, but only to the extent that cash flows into the fund are insufficient to cover the outflow. Assets are generally easy to realise as they consist mainly of large listed equity securities, government stock or funds on deposit.

The investment policy and mandates take the expected liability cash flow into account. By limiting the cash flow mismatch, the risk of premature realisation of assets or reinvestment of excess cash is mitigated. In addition, investment guidelines and limits are used to limit exposure to illiquid assets.

Maturity dates are normally known in advance and cash flow projections are performed to aid in portfolio and cash flow management. Where the product design allows for the payment of an early termination value (i.e. a benefit payment before the contract maturity date), such value is not normally guaranteed but is determined at the company's discretion (subject to certain minima prescribed by legislation). This limits the loss on early termination. If underlying assets are illiquid, the terms of the policy contract normally allow for a staggered approach to early termination benefit payments. Examples of the latter are contracts that invest in unlisted equity and certain property funds.

When a particular policyholder fund is contracting (i.e. outflows exceed inflows), care is taken to ensure that the investment strategy and unit pricing structure of the fund are appropriate to meet liquidity requirements (as determined by cash flow projections). In practice, such a fund is often merged with cash flow positive funds, to avoid unnecessary constraints on investment freedom.

Linked and market-related policyholder benefits

These contracts do not expose the company to significant liquidity risk because liquidity loss, except those that relate to investment guarantees, are usually passed on to the policyholders. The investment policy and mandates take the expected liability cash flow into account. By limiting the cash flow mismatch, the risk of premature realisation of assets or reinvestment of excess cash is mitigated. In addition, investment guidelines and limits are used to limit exposure to illiquid assets.

Smooth bonus business policyholder benefits

These contracts do not expose the company to significant liquidity risk because liquidity loss, except those that relate to investment guarantees, can usually be passed on to the policyholders. The investment policy and mandates take the expected liability cash flow into account. By limiting the cash flow mismatch, the risk of premature realisation of assets or reinvestment of excess cash is mitigated. In addition, investment guidelines and limits are used to limit exposure to illiquid assets.

Other policyholder benefits

Policyholder contracts that provide mostly lump sum risk benefits do not normally give rise to significant liquidity risk compared to policies that provide mostly savings benefits. Funds supporting risk benefits normally have substantial cash inflows from which claims can be paid. Accrued liabilities are matched by liquid assets to meet cash outflows in excess of expected inflows.

On certain large corporate policy contracts, the terms of each individual policy contract takes into account the relevant liquidity requirements. Examples of such contractual provision include the payment of benefits in specie, or a provision for sufficient lag times between the termination notification and the payment of benefits.

For contracts providing guaranteed annuity benefits, all the liquidity risk that arises is borne by the company. The liquidity risk is mitigated by ensuring that expected liability cash flows are matched with sufficiently liquid assets of appropriate nature and term.

Shareholder funds

The significant shareholder liabilities of the company are the carry positions and the subordinated call notes.

The company holds sufficient cash and liquid marketable financial instruments in its shareholders funds to meet its commitments as and when they fall due. The investment assets backing the shareholders funds are invested in a diversified portfolio of liquid cash, floating rate instruments and listed equity instruments.

The investment mandate and guidelines that govern the investment of shareholders funds restrict exposure to high quality assets.

The projected liquidity requirements of the shareholder portfolio are identified, measured and reported on a regular basis to the executive BSM. The regular reports take the expected shareholder cash flows (eg committed mergers and liquidity needs of related entities) into account in order to identify material funding liquidity gaps early. By determining the potential liquidity gaps, the funding liquidity and market liquidity risks of the shareholder portfolios are mitigated.

Liquidity profile of assets

The following table illustrates that the company's assets are fairly liquid in order to meet the liquidity needs of obligations if the company should be required to settle earlier than expected:

Financial asset liquidity	**2017**		2016	
	%	**Rm**	%	Rm
High (1)	77%	293 922	76%	291 224
Medium (2)	20%	75 165	20%	77 740
Low/illiquid (3)	3%	11 727	3%	11 631
Other assets not included above				
- non-current assets held for sale		-		470
- employee benefit asset		408		441
Total assets		**381 222**		381 506

(1) Highly liquid assets are those that are considered to be realisable within one month (eg Level 1 financial assets at fair value including funds on deposit and other money market instruments >90 days, cash and cash equivalents), the current values of which might not be realised if a substantial short-term liquidation were to occur, due to demand-supply principles.

(2) Medium liquid assets are those that are considered to be realisable within six months (eg Level 2 and level 3 financial assets at fair value, except for funds on deposit and other money market instruments >90 days, loans and receivables, insurance receivables, reinsurance contracts).

(3) Low/illiquid assets are those that are considered to be realisable in excess of six months (eg intangible assets, investment and owner occupied properties, property and equipment, equity-accounted associates).

Maturity profile of liabilities

The cash flows, (either expected or contractual), are disclosed for these liabilities in the maturity analysis below:

2017 Rm	Carrying value	Total	Open-ended(1)	0 to 1 year	1 to 5 years	5 to 10 years	> 10 years
Insurance contracts (discounted cash flows) (2)	96 613	96 613	13 785	10 398	22 821	18 716	30 893
Linked (market-related) business							
Individual	16 198	16 198	1 147	1 316	3 811	3 467	6 457
Employee benefits	1 555	1 555	-	180	552	393	430
Smoothed bonus business							
Individual	22 084	22 084	978	2 930	5 993	5 300	6 883
Conventional with-profit business	8 852	8 852	3 063	546	1 024	670	3 549
Non-profit business							
Individual	4 476	4 476	1 632	(143)	151	76	2 760
Employee benefits	2 582	2 582	163	1 354	317	242	506
Annuity business	40 866	40 866	6 802	4 215	10 973	8 568	10 308
Investment contracts with DPF (discounted cash flows) (2)	22 750	22 750	17 751	739	2 086	1 183	991
Linked (market-related) business							
Individual	157	157	-	13	62	45	37
Individual	6 020	6 020	1 388	705	1 960	1 088	879
Employee benefits	16 123	16 123	16 123	-	-	-	-
Non-profit business							
Employee benefits	195	195	195	-	-	-	-
Annuity business	255	255	45	21	64	50	75
Investment contracts (undiscounted cash flows)	221 463	223 557	111 421	4 481	17 214	9 439	81 002
Linked (market-related) business							
Individual	138 203	138 040	40 838	2 861	5 031	9 260	80 050
Employee benefits	71 748	71 748	70 493	14	66	111	1 064
Non-profit business							
Individual	9 623	11 735	68	992	10 674	1	-
Annuity business	1 889	2 034	22	614	1 443	67	(112)
Total policyholder liabilities under insurance and investment contracts	340 826	342 920	142 957	15 618	42 121	29 338	112 886
Financial liabilities designated at fair value through income	10 993	12 365	-	7 740	3 215	1 410	-
Subordinated call notes	3 602	4 974	-	349	3 215	1 410	-
Carry positions	7 391	7 391	-	7 391	-	-	-
Derivative financial instruments (3)	1 758						
Other payables at amortised cost (4)	7 820	7 744	-	7 584	160	-	-
Other liabilities (5)	2 824						
Total liabilities	364 222	363 029	142 957	30 942	45 496	30 748	112 886

Notes to the maturity profile of liabilities table:

(1) Open ended liabilities are defined as:
- policies where the policyholder is entitled to their benefit at any future point (benefits are contractually available on demand), or
- where policies do not have a specified contract term.

(2) The cash flows for insurance and investment contracts with DPF liabilities are calculated using discounted, expected cash flows. All other values are based on contractual undiscounted cash flows.

(3) Cash flows for derivative financial instruments have been disclosed on a net basis below.

(4) Other payables exclude premiums paid in advance and deferred revenue liabilities.

(5) Other liabilities are considered to be excluded from the scope of IAS 39 and IFRS 7; therefore no cash flows are provided for those liabilities.

Cash flows relating to policyholder liabilities under insurance and investment contracts (current in-force book) have been apportioned between future time periods in the following manner:

- In general, the earliest contractual maturity date is used for all liabilities.
- For investment contracts, the contractually required cash flows for policies that can be surrendered are the surrender values of such policies. It is assumed that surrender values are contractually available on demand and therefore these policies are disclosed as open-ended.
- For policies with no surrender value, the estimated contractual cash flow is disclosed.
- Contractual undiscounted cash flows are disclosed for investment contract liabilities designated at fair value through income.
- Expected discounted cash flows, ie the estimated timing of repayment of the amounts recognised in the statement of financial position, are disclosed for insurance contract liabilities and investment contracts with DPF liabilities. The assumptions used to calculate the statement of financial position value of these liabilities are disclosed in note 17.
- For investment contracts with DPF liabilities, the discretionary component of the liability has been allocated in line with the underlying expected benefits payable to policyholders.

Financial liabilities designated at fair value

- The cash flows relating to the subordinated call notes have been allocated to the earliest period in which they are callable by the company. They will be funded from cash resources at that time. The shareholder funds include sufficient cash resources to fund the coupon payments under these call notes.
- Carry positions have a one-month rolling period and the funding thereof forms part of the general portfolio management.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

2016 Rm	Carrying value	Total	Open ended	0 to 1 year	1 to 5 years	5 to 10 years	> 10 years
Insurance contracts (discounted cash flows)	97 749	97 749	14 551	10 144	22 441	18 895	31 718
Linked (market-related) business							
Individual	18 178	18 178	1 635	1 435	4 070	3 760	7 278
Employee benefits	1 469	1 469	-	170	521	372	406
Smoothed bonus business		-					
Individual	23 293	23 293	1 310	2 929	6 253	5 568	7 233
Conventional with-profit business	9 082	9 082	3 275	520	925	695	3 667
Non-profit business		-					
Individual	4 116	4 116	1 676	117	210	93	2 020
Employee benefits	2 446	2 446	110	1 346	278	231	481
Annuity business	39 165	39 165	6 545	3 627	10 184	8 176	10 633
Investment contracts with DPF (discounted cash flows)	23 581	23 581	18 200	712	1 960	1 229	1 480
Linked (market-related) business							
Individual	164	164	-	28	51	48	37
Smoothed bonus business		-					
Individual	6 335	6 335	1 428	654	1 814	1 107	1 332
Employee benefits	16 545	16 545	16 543	-	1	1	-
Non-profit business		-					
Employee benefits	183	183	183	-	-	-	-
Annuity business	354	354	46	30	94	73	111
Investment contracts (undiscounted cash flows)	218 927	220 069	107 695	4 376	16 673	10 912	80 413
Linked (market-related) business							
Individual	137 888	136 479	38 812	3 051	4 988	10 378	79 250
Employee benefits	70 046	70 046	68 729	15	69	116	1 117
Non-profit business		-					
Individual	8 407	10 744	73	721	9 893	56	1
Annuity business	2 586	2 800	81	589	1 723	362	45
Total policyholder liabilities under insurance and investment contracts	340 257	341 399	140 446	15 232	41 074	31 036	113 611
Financial liabilities designated at fair value through income	10 808	12 602	-	7 604	3 451	1 547	-
Subordinated call notes	3 557	5 351	-	353	3 451	1 547	-
Carry positions	7 251	7 251	-	7 251	-	-	-
Derivative financial instruments	2 040						
Other payables at amortised cost	7 893	7 774	-	7 774	-	-	-
Other liabilities	3 394						
Total liabilities	364 392	361 775	140 446	30 610	44 525	32 583	113 611

Maturity profile of derivative financial instruments

Contractual maturities are assessed to be essential for an understanding of all derivatives presented in the statement of financial position.

The following table indicates the expiry of derivative financial assets and liabilities, based on net undiscounted cash flow projections. When the amount payable is not fixed, the amount disclosed is determined by reference to conditions existing at the reporting date.

Some of the company's derivatives are subject to collateral requirements. Cash flows for those derivatives could occur earlier than the contractual maturity date.

2017 Rm	Carrying value	Total	0 to 1 year	1 to 5 years	> 5years
Derivatives held for trading					
Equity derivatives	39	34	33	-	1
Interest rate derivatives	1 411	1 709	(319)	2 800	(772)
Bond derivatives	(35)	14 091	(1 926)	430	15 587
Credit derivatives	4	2	2	8	(8)
Currency derivatives	(795)	(483)	29	(201)	(311)
	624	15 353	(2 181)	3 037	14 497
Derivatives held for hedging					
Fair value hedges	-	-	-	-	-
Total net undiscounted cash flow projections	624	15 353	(2 181)	3 037	14 497
Derivative financial instruments					
Assets	2 382				
Liabilities	(1 758)				
	624				

2016 Rm	Carrying value	Total	0 to 1 year	1 to 5 years	> 5years
Derivatives held for trading					
Equity derivatives	(13)	(12)	(12)	-	-
Interest rate derivatives	879	1 543	(289)	2 253	(421)
Bond derivatives	1	13 475	(1 302)	144	14 633
Credit derivatives	(1)	-			
Currency derivatives	(1 065)	(590)	44	(281)	(353)
	(199)	14 416	(1 559)	2 116	13 859
Derivatives held for hedging					
Fair value hedges	-	-	-	-	-
Total net undiscounted cash flow projections	(199)	14 416	(1 559)	2 116	13 859
Derivative financial instruments					
Assets	1 841				
Liabilities	(2 040)				
	(199)				

44 MARKET RISK

Market risk is the risk of financial loss due to adverse movements in the market value of assets supporting liabilities relative to the value of those liabilities, or due to a decrease in the net asset value, as a consequence of changes in market conditions or as a result of the performance of investments held.

Financial instruments held by the company are subject to the components of market risk as follows, with two check marks indicating high exposure and one check mark indicating medium or low exposure to the applicable risk:

	Carrying value		Market price risk	Interest rate risk	Currency risk
	2017 Rm	2016 Rm			
Assets					
Carried at fair value					
Designated at fair value through income					
Equity securities	**50 067**	58 347	✔ ✔	✔	✔
Debt securities	**78 222**	85 753	✔	✔ ✔	✔
Funds on deposit and other money market instruments	**12 914**	10 921	✔	✔ ✔	✔
Unit-linked investments	**121 597**	117 681	✔ ✔	✔	✔
Investments in associates designated at fair value through income	**18 848**	13 969	✔ ✔	✔	✔
Derivative financial instruments					
Held for trading	**2 382**	1 841	✔ ✔	✔	✔
Interest in subsidiary companies	**59 431**	53 174			✔
Carried at amortised cost					
Loans and receivables					
Accounts receivable	**1 374**	1 284		✔	✔
Unsettled trades	**141**	344			✔
Loans	**5 808**	4 711		✔	✔
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**2 535**	2 705		✔	✔
Cash and cash equivalents	**14 054**	16 499		✔	✔
Non-current assets held for sale	**-**	470		✔ ✔	
Other assets	**13 849**	13 807	n/a	n/a	n/a
Total assets	**381 222**	381 506			

	Carrying value		Market price risk	Interest rate risk	Currency risk
	2017	2016			
	Rm	Rm			
Liabilities					
Carried at fair value					
Investment contracts					
Designated at fair value through income	**221 463**	218 927	✔ ✔	✔ ✔	✔
Designated at fair value through income					
Subordinated call notes	**3 602**	3 557		✔	
Carry positions	**7 391**	7 251	✔	✔ ✔	
Derivative financial instruments					
Held for trading	**1 758**	2 040	✔ ✔	✔	✔
Carried at amortised cost					
Other payables					
Payables arising from insurance contracts and investment contracts with DPF (excluding premiums received in advance)	**4 062**	4 455			✔
Payables arising from investment contracts	**668**	156			✔
Unsettled trades	**363**	703			
Other payables at amortised cost	**3 722**	3 605			✔
Insurance contract liabilities	**96 613**	97 749	n/a	n/a	n/a
Investment contracts with DPF	**22 750**	23 581	✔ ✔	✔ ✔	✔ ✔
Other non-financial liabilities	**1 830**	2 368	n/a	n/a	n/a
Total liabilities	**364 222**	364 392			

Market risk for shareholders is the risk that the fair value of future cash flows of financial instruments backing the shareholder excess will fluctuate because of changes in market prices, taking into account the second order impact on earnings due to such market price fluctuations of financial instruments backing the contract holder liabilities when asset-liability mismatch occurs as a result thereof.

For discretionary participation business, market-related contracts or unit-linked contracts:

- the policyholder carries majority of the market risk; while
- the company carries the risk of reduced income from fees where these are based on investment returns or the underlying fund value or where investment conditions affect its ability to recoup expenses incurred.

Furthermore there is also the reputational risk if actual investment performance is not in line with policyholders' expectations.

For non-profit business (including annuities) and in respect of the net asset value, shareholders carry the market risk.

Market risk governance

Shareholder market risk is managed according to the MMI Shareholder Asset and Liability Management (ALM) Policy while the Client Investment Policy governs the management of policyholder market risk.

The executive Balance Sheet Management (BSM) committee is responsible for the company's market risk management, with the board Risk Capital and Compliance committee providing oversight over market risks assumed on behalf of shareholders.

The MMI Product Management Committee provides oversight over the management of policyholder market risk. Policyholder market risk is managed through various management-level governance committees established for this purpose. These committees monitor the performance of investment portfolios against client outcome requirements. This includes consideration of the appropriateness of the matching of assets and liabilities of the various policyholder portfolios where policyholder benefits are impacted by investment returns.

For contract holder liabilities, the financial instruments backing each major line of business are segregated to ensure that they are used exclusively to provide benefits for the relevant contract holders. The valuation of these financial instruments is subject to various market risks, particularly interest rate and price risk. Each portfolio consists of an asset mix deemed appropriate for the specific product. These risks and the company's exposure to equity, interest rate, currency and property price risks are discussed and disclosed in this note.

Market risk management per product

Individual and group contracts with discretionary participation features (DPF)

Assets are invested in line with specified mandates in equities (local and, for some funds, offshore), fixed-interest assets, property and cash, according to the asset manager's best investment view. Divisional Policyholder Investment Committees regularly monitor the asset mix and performance to ensure that the expected returns are in line with policyholder expectations. Separate investment portfolios are managed for each product.

The investment return earned on the underlying assets, after tax and charges, is distributed to policyholders in the form of bonuses in line with product design, reasonable policyholder expectations, affordability and management discretion. The use of bonuses is a mechanism to smooth returns to policyholders in order to reduce the risk of volatile investment performance. Any returns not yet distributed are retained in a bonus stabilisation account (BSA) for future distribution to policyholders.

In the event of adverse investment performance, such as a sudden or sustained fall in the market value of assets backing smoothed bonus business, the BSA may be negative. In such an event, there are the following options:

- In valuing the liabilities it is assumed that lower bonuses will be declared in future.
- Lower bonuses are actually declared.
- For those contracts where a portion of bonuses declared is not vested, the company has the right to remove previously declared non-vested bonuses in the event of a fall in the market value of assets. This will only be done if the BSA is negative and it is believed that markets will not recover in the short term.
- short-term derivative hedging strategies can be used to protect the funding level against further deterioration due to poor investment performance.
- A market value adjuster may be applied in the event of voluntary withdrawal in cases where the withdrawal benefit exceeds the market value. For group contracts, an alternative option is to pay out the termination value over an extended term (usually 10 years). These measures are primarily to protect the remaining policyholders.
- An additional BSA is held for the benefit of shareholders to provide an additional layer of protection under extreme market conditions against the risk of removal of non-vested bonuses caused by fluctuations in the values of assets backing smoothed bonus liabilities. This liability is in addition to the policyholder bonus stabilisation accounts described elsewhere, and is not distributed to policyholders other than in very extreme circumstances.
- in very extreme circumstances, funds may be transferred from the shareholder portfolio into the BSA on a temporary or permanent basis.

Individual contracts offering investment guarantees

The company has books of universal life business that offer minimum maturity values, based on a specified rate of investment return. These guaranteed rates range from 0% to 4.5% p.a. for the bulk of business. This applies to smoothed bonus portfolios as well as certain market-linked portfolios (the latter mostly closed to new business). On some smoothed bonus portfolios, there is also a guarantee to policyholders that the annual bonus rate will not be less than a contractual minimum (around 4.5% p.a.). There is also a portion of universal smoothed bonus fund values that is deemed vested and thereby constitutes an additional form of investment guarantee in certain circumstances. Similarly, on reversionary bonus business, an investment guarantee in the form of sum assured and declared reversionary bonuses are given.

The risk of being unable to meet guarantees is managed by holding a specific liability for minimum maturity values and other guaranteed benefits arising from minimum contractual investment returns in accordance with local actuarial guidance. A stochastic model is used to quantify the reserve required to finance possible shortfalls in respect of minimum maturity values and other guaranteed benefits. The model is calibrated to market data and the liability is calculated every six months. Statutory capital is held in respect of the guarantee risk. The amount of capital is calculated to be sufficient to cover the cost of guarantees in line with SAP 104 guidance. The shareholder exposure is also hedged to the extent possible, subject to available instruments and the overall risk profile of the business.

Group contracts with discretionary participation features (DPF) and continuous guarantees

Certain portfolios are offered to institutional investors and provide a continuous guarantee on capital and declared bonuses. Bonuses are fully vesting and are declared monthly in advance.

No market value adjuster applies but allowance is made for the payment of benefits over a period of up to 12 months if large collective outflows may prejudice remaining investors. Use is made of derivative instruments to minimise downside market risk in the group DPF portfolios.

Under adverse circumstances the BSA may become negative. To protect equity between different generations of policyholders, the additional BSA may be utilised to temporarily or permanently top up the BSA on recommendation of the actuarial committee and approval from the board.

Market related/unit linked business

Market related or unit linked contracts are those invested in portfolios where there is a direct relationship between the returns earned on the underlying portfolio and the returns credited to the contract. These may be investment contracts or insurance contracts and include universal life contracts which also provide cover on death or disability.

Policyholders carry the investment risk; however, the company carries a risk of reduced income from fees where these are based on investment returns or the underlying fund value, or where investment conditions affect its ability to recoup expenses incurred. Furthermore, there is also the reputational risk if actual investment performance is not in line with policyholder expectations. These risks are managed through the rigorous investment research process applied by the company's investment managers, which is supported by technical as well as fundamental analysis.

Non-profit annuity business

An annuity policy pays an income to the annuitant in return for a lump sum consideration paid on origination of the annuity policy. Income payments may be subject to a minimum period. The income may be fixed or increase at a fixed rate or in line with inflation.

This income is guaranteed and the value of the liability is, therefore, subject to interest rate risk, in addition to the risk of longer than anticipated life expectancy. In order to hedge against the interest rate risk, the company invests in an actively managed portfolio of government and corporate bonds, promissory notes from banks and swaps with approximately the same duration as the liabilities. The mismatch risk is measured in terms of duration and convexity risk. The portfolio aims to minimise both of these risks. Index linked annuities, which provide increases in line with inflation, are generally matched with index linked bonds or bank-issued matching structures. Where perfect cash flow matching is not possible, interest rate risk is minimised by ensuring the values of assets and liabilities respond similarly to small changes in interest rates.

The impact of a 1% reduction in yields on the annuity portfolio will generate a mismatch loss of R27 million (2016: R15 million) for MMI Group Ltd.

The calculation for the company is based on the risk free yield curve. The average rate that produces the same result is 10.1% (2016: 9.7%).

Guaranteed endowments and structured products

The company issues guaranteed endowment policies – the majority of these contracts are five year single premium endowment policies providing guaranteed maturity values. In terms of these contracts, policyholders are not entitled to receive more than the guaranteed maturity value as assured at inception. The obligation is hedged by investing in assets that will provide the required yield at the relevant date and term.

A variation on guaranteed endowment policies are contracts where the capital guarantee is combined with a guaranteed return linked to the returns on local and offshore market indices. The risk associated with the guarantee on these contracts is managed through the purchase of appropriate assets and the risk of the offshore indices is generally hedged through equity linked notes issued by banks. In addition to these hedging strategies, a portion of the guaranteed endowment policies is reinsured with reinsurers in terms of the company's reinsurance policies.

Shareholder cash flows in respect of individual contracts with investment components

The expected future charges, expense outgo and risk benefit payments (including margins) on individual contracts with investment components are capitalised using a long-term interest rate. The resultant discounted value is added to liabilities (an offset to liabilities when negative). The company is therefore subject to interest rate risk as any changes in long-term interest rates will result in a change in the value of liabilities. This risk is mitigated though hedging as well as diversification against other interest rate risks.

Other non-profit business

These policies mainly represent whole life and term assurance contracts that provide lump sum benefits on death and disability. In addition to mortality risk, morbidity risk, expense risk and persistency risk, there is also the risk that investment return experienced may be different to that assumed when the price of insurance business was determined. The market risk on these contracts is mitigated through appropriate interest rate instruments.

44.1 Market risk management per risk factor

Equity price risk

Price risk is the risk that the value and/or future cash flows of financial instruments will fluctuate as a result of changes in market prices.

Equity risk is the risk of financial loss as a result of adverse movements in the market value of equities, implied volatility and/or income from equities.

Equities (listed and unlisted) are reflected at market values, which are susceptible to fluctuations. The risks from these fluctuations can be separated into systematic risk (affecting all equity instruments) and specific risk (affecting individual securities). In general, specific risk can be reduced through diversification, while systemic risk cannot.

The company manages its listed equity risk by employing the following procedures:

- mandating specialist equity fund managers to invest in listed equities, where there is an active market and where access is gained to a broad spectrum of financial information relating to the companies invested in;
- diversifying across many securities to reduce specific risk. Diversification is guided by the concentration rules imposed on admissible assets by the Long-Term Insurance Act;
- requiring these fund managers to maintain the overall equity exposure within the prudential investment guidelines set by the FSB;
- considering the risk-reward profile of holding equities and assuming appropriate risk in order to obtain higher expected returns on assets.

Unlisted equity investment risks are managed as follows:

- mandating the company's asset manager and specialist alternative investment boutique to invest in diversified pools of private equity partnerships and other unlisted equity investments;
- achieving diversification across sector, stage, vintage and geography;
- all investments are subject to prudential limits stipulated by the company's Private Equity Investments Committee, represented by specialist investment professionals and independent company representatives;
- To mitigate the risk of potential subjective valuation due to the nature of unlisted investments, the South African Venture and Private Equity Association (SAVCA) has developed a set of guidelines intended to provide a framework for valuation and disclosure in this regard. This framework is consistent with best practise exercised and recommended by the European Venture Capital and Private Equity Association.

Refer to the sensitivity analysis in note 44.5.

44.2 Interest rate risk

Interest rate risk is the risk that the value and/or future cash flows of financial instruments will fluctuate as a result of changes in interest rates.

Exposure of financial instruments to interest rates

Changes in market interest rates have a direct effect on the contractually determined cash flows associated with floating rate financial assets and financial liabilities, and on the fair value of other investments. Fair values of fixed maturity investments included in the company's investment portfolios are subject to changes in prevailing market interest rates. The table below provides a split of interest bearing assets that are exposed to cash flow interest rate risk and those that are exposed to fair value interest rate risk. Debt securities with no interest rate risk exposure are securities where the valuation is driven by factors other than interest rates, such as capital structured notes where the valuation is derived from the underlying investments, and debentures where the price is driven by the underlying gold price. Loans and receivables with short-term cash flows are considered not to have any interest rate risk since the effect of interest rate risk on these balances is not considered significant. Due to practical considerations, interest rate risk details contained in investments in non-subsidiary unit-linked investments are not provided.

Instrument class **2017**	**Carrying value** **Rm**	**Cash flow interest rate risk** **Rm**	**Fair value interest rate risk** **Rm**	**No interest rate risk** **Rm**	**Weighted average rate** **%**
Designated at fair value through income					
Debt securities	78 222	25 033	51 434	1 755	7.0
Funds on deposit and other money market instruments	12 914	11 163	1 721	30	8.0
Derivative financial assets	2 382	-	2 382	-	n/a
Derivative financial liabilities	(1 758)	-	(1 758)	-	n/a
Cash and cash equivalents	14 054	12 695	1 368	(9)	7.0
Loans and receivables	7 323	1 106	-	6 217	11.3
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	2 535	-	-	2 535	0.0
	115 672	**49 997**	**55 147**	**10 528**	

Instrument class 2016	**Carrying value** **Rm**	**Cash flow interest rate risk** **Rm**	**Fair value interest rate risk** **Rm**	**No interest rate risk** **Rm**	**Weighted average rate** **%**
Designated at fair value through income					
Debt securities	85 753	26 673	56 369	2 711	8.0
Funds on deposit and other money market instruments	10 922	9 066	1 855	-	8.0
Derivative financial assets	1 841	-	1 841	-	n/a
Derivative financial liabilities	(2 040)	-	(2 040)	-	n/a
Cash and cash equivalents	16 499	14 540	1 940	19	7.0
Loans and receivables	6 339	1 262	-	5 077	11.5
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	2 705	-	-	2 705	0.0
	122 019	51 541	59 965	10 512	

Liability exposure to interest rates is reflected in notes 18. Derivative instrument exposure to interest rates is reflected in note 6.3.

44.3 Currency risk

Currency risk is the risk that the rand value and/or future cash flows of financial instruments and liabilities will fluctuate due to changes in foreign exchange rates. Currency risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The majority of the company's currency exposure results from the offshore assets held by policyholder portfolios. These investments were made for the purpose of obtaining a favourable international exposure to foreign currency and to investment value fluctuations in terms of investment mandates, subject to limitations imposed by the South African Reserve Bank.

To the extent that offshore assets are held in respect of contracts where the contract holder benefits are a function of the returns on the underlying assets, currency risk is minimised.

Details of currency risk contained in investments in local collective investment schemes that are not subsidiaries have not been included in the table below as the look-through principle was not applied.

Assets and liabilities denominated in Namibian dollar, Lesotho maluti and Swazi emalangeni currencies that are pegged to the South African rand on a 1:1 basis do not represent significant currency risk for the company. The geographical area of Africa includes Botswana, Ghana, Kenya, Malawi, Mauritius, Mozambique, Nigeria, Tanzania and Zambia.

The assets in the table below generally back policyholder liabilities, reducing the currency risk exposure for shareholders.

The following assets and liabilities, denominated in foreign currencies, where the currency risk resides with the company, are included in the company's statement of financial position at 30 June:

2017	**Africa Rm**	**UK Rm**	**US Rm**	**Euro Rm**	**Asian Pacific Rm**	**Other Rm**	**Total Rm**
Closing exchange rate		*17.0068*	*13.0909*	*14.9254*			
Investment securities							
Designated at fair value through income							
Equity securities	**-**	**99**	**314**	**72**	**3**	**27**	**515**
Debt securities	**-**	**14**	**1 595**	**609**	**-**	**-**	**2 218**
Unit-linked investments	**-**	**1 424**	**26 945**	**357**	**6**	**47**	**28 779**
Interest in subsidiaries	**41**	**424**	**12 967**	**159**	**-**	**-**	**13 591**
Interest in associates	**-**	**24**	**3 981**	**-**	**-**	**-**	**4 005**
Loans and receivables	**-**	**-**	**15**		**-**	**-**	**15**
Cash and cash equivalents	**-**	**113**	**1 127**	**50**		**3**	**1 293**
	41	**2 098**	**46 944**	**1 247**	**9**	**77**	**50 416**
Other financial liabilities	**-**	**-**	**795**	**-**	**-**	**-**	**795**
	-	**-**	**795**	**-**	**-**	**-**	**795**

2016	Africa Rm	UK Rm	US Rm	Euro Rm	Asian Pacific Rm	Other Rm	Total Rm
Closing exchange rate		*19.6078*	*14.6587*	*16.2602*			
Investment securities							
Designated at fair value through income							
Equity securities	-	114	292	18	1	20	445
Debt securities	-	24	1 883	655	-	-	2 562
Unit-linked investments	-	471	21 112	391	5	46	22 025
Interest in subsidiaries	**43**	449	14 198	184	-	-	14 874
Interest in associates	-	32	3 844	-	-	-	3 876
Derivative financial instruments	-	-	23	-	-	-	23
Loans and receivables	-	-	5		-	-	5
Cash and cash equivalents	-	86	550	54	-	1	691
	43	1 176	41 907	1 302	6	67	44 501
Other financial liabilities	-	-	1 078	11	-	-	1 089
	-	**-**	1 078	11	**-**	**-**	1 089

African exchange rates representing material balances above are:

Closing exchange rate	**Botswana**	**Ghana**	**Kenya**	**Nigeria**
2017	**1.2753**	**2.9818**	**0.1261**	**0.0416**
2016	1.3466	3.7272	0.1450	0.0519

44.4 Property price risk

Property price risk is the risk that the value of investment properties, owner-occupied properties and properties under development, as well as participatory interest in property collective investment schemes, will fluctuate as a result of changes in rental income and interest rates.

Property investments are made on behalf of policyholders, shareholders and other investment clients and are reflected at market value. Diversification in property type, geographical location and tenant exposure are all used to reduce the risk exposure.

The company's exposure to property holdings at 30 June is as follows:

	2017 Rm	2016 Rm
Investment properties	**6 639**	6 670
Owner-occupied properties	**1 851**	1 556
Collective investment schemes > 55% property exposure (Refer note 39.1)	**8 121**	5 159
	16 611	13 385
Percentage of total assets	**4.4%**	3.5%

Refer to note 4 for the concentration risk regarding types of properties and relating to investment properties. Owner-occupied properties mainly comprise of office buildings.

The company is also exposed to tenant default and unlet space within the investment property portfolio. There were no material long outstanding debtors relating to tenants at 30 June 2017. The carrying amount of unlet and vacant investment property as at 30 June 2017 was R43.4 million (2016: R755.4 million).

44.5 Sensitivity to market risk

The company's earnings and net asset value are exposed to market risks. The company has identified that changes in equity prices and interest rates are the market risk elements with the most significant effect on earnings and equity. The table below provides the sensitivity to a change in equity prices by 10% and a change to interest rates by 100 basis points.

	Equity prices		Interest rates	
	Increase by 10 %	Decrease by 10 %	Increase by 100 bps	Decrease by 100 bps
2017	Rm	Rm	Rm	Rm
Increase/(decrease) in earnings per income statement	112	(119)	39	(42)
Increase/(decrease) in equity	346	(342)	(203)	180
2016				
Increase/(decrease) in earnings per income statement	131	(129)	1	4
Increase/(decrease) in equity	590	(601)	(23)	21

Sensitivity ranges

- The upper and lower limits of the sensitivity ranges are management's best judgement of the range of probable changes within a twelve month period from the reporting date.
- Extreme or irregular events that occur sporadically, ie not on an annual basis, have been ignored as they are by nature not predictable in terms of timing.

Methods and assumptions used in preparing the sensitivity analysis

- The changes in equity prices and interest rates have been applied to the assets and liabilities at the reporting date and to net income for the year just ended.

- The assets are impacted by the sensitivity at the reporting date. The new asset levels are applied to the measurement of contract holder liabilities, where applicable, but no changes are made to the prospective assumptions used in the measurement of contract holder liabilities.
- In line with the company's current practice and accounting policy, the investment variances from insurance contracts were stabilised.
- The change in equity prices was assumed to be a permanent change.
- Future dividend yields were assumed to remain unchanged.
- No change was assumed in expected future returns and discount rates used in valuing liabilities as a result of changes in equity prices.
- The expected future real rates of return were assumed to remain unchanged.
- Future inflation rates were assumed to change in line with interest rates.
- Sensitivities on expected taxation have not been provided.

Mitigation
Hedging strategies using derivative and other structures are implemented to reduce equity and interest rate risk on shareholder exposures. These structures and other ways of reducing this risk are assessed, investigated and implemented on an ongoing basis by management with consideration of the market conditions at any given time.

The impact of the change in interest rates is addressed by ensuring that contract holder liabilities and assets are matched and continuously monitored to ensure that no significant mismatching losses will arise due to a shift in the yield curve or a change in the shape of the yield curve.

Currency sensitivity
The impact of changes in currency on earnings and equity for the company is not considered to be material. Refer to note 44.3 for more details on the company's currency exposure.

45 CREDIT RISK

Credit risk refers to the risk of loss, or of adverse change in the financial position resulting directly or indirectly from the non-performance of a counterparty in respect of any financial or performance obligation or due to deterioration in the financial status of the counterparty and any debtors to which shareholders and policyholders are exposed.

Credit risk could also arise from the decrease in value of an asset because of a deteriorating of credit worthiness (which may give rise to the downgrading of counterparties). Credit risk arises from investments in debt securities, funds on deposit and other money market instruments, unit-linked investments, derivative financial instruments, available-for-sale debt securities, held-to-maturity investments, reinsurance debtors, loans to policyholders and other loans and receivables in the shareholder and guaranteed portfolios as well as linked portfolios.

Where instruments are held to back investment linked contract liabilities, the policyholder carries the credit risk.

Credit risk governance

The governance of credit risk is comprehensively set out in the executive balance sheet management committee (executive BSM) charter. The primary responsibility of the executive BSM is to oversee, and ensure proper corporate governance over and management of market risk, which includes credit risk, across the MMI group in respect of shareholders. The executive BSM charter forms part of the overall enterprise risk management (ERM) framework. The overall responsibility for the effectiveness of credit risk management processes vests with the board of directors. The operational responsibility has been delegated to the executive BSM, executive management and the credit risk management function. The product management committees are responsible for setting the credit risk sections of mandates for linked policyholder portfolios and for monitoring the performance.

The Executive BSM is a sub-committee of the executive committee. This committee reports to the company's executive committee on the effectiveness of credit risk management and provides an overview of the company's shareholders' credit portfolio. The Executive BSM and its sub-committees are responsible for the approval of relevant credit policies and the ongoing review of the company credit exposure. This includes the monitoring of the following:

- quality of the credit portfolio
- stress quantification
- credit defaults against expected losses
- credit concentration risk
- appropriateness of loss provisions and reserves.

Independent oversight is also provided by a Balance Sheet Management Committee of the Board ("Board BSM Committee").

Managing credit risk

Management recognises and accepts that losses may occur through the inability of corporate debt issuers to service their debt obligations. In order to limit this risk, the Executive BSM has formulated guidelines regarding the investment in corporate debt instruments, including a framework of limits based on the company's credit risk appetite.

The approval framework for new credits consists of two committees, namely an Executive Credit Committee and the BSM Credit Committee. The BSM Credit Committee consists of senior credit executives and independent senior management executives. The Executive Credit Committee consists of Group Executive Committee members and senior management executives. The Executive Credit Committee approves credits in excess of the mandate and limits of the BSM Credit Committee.

The following are taken into account in the approval process:

- the underlying nature of the instrument and credit strength of the counterparty
- the credit rating of the issuer, either internally generated or external from either Moody's, Fitch or S&P
- current exposure and portfolio diversification effects.

To achieve the above, an internal credit risk function performs ongoing risk management of the credit portfolio which include:

- the use of stochastic portfolio credit risk modelling in order to gauge the level of portfolio credit risk, consider levels of capital and identify sources of concentration risk and the implications thereof
- preparing credit applications and performing annual reviews.

Regular risk management reporting to the executive BSM includes credit risk exposure reporting, which contains relevant data on the counterparty, credit limits and ratings (internal and external). Counterparty exposures in excess of set credit limits are monitored and corrective action is taken where required.

Credit mitigation instruments are used where appropriate. These include collateral, netting agreements and guarantees or credit derivatives.

Concentration risk

Concentration risk is managed at the credit portfolio level. The nature thereof differs according to segment. Concentration risk management in the credit portfolio is based on individual name limits and exposures (which are reported to and approved by the balance sheet management committee) and the monitoring of industry concentrations. A sophisticated simulation portfolio model has been implemented to quantify concentration risk and its potential impact on the credit portfolio.

Unit-linked investments

The company is exposed to credit risk generated by debt instruments which are invested by collective investment schemes and other unit linked investments in which the company invests. The company's exposure to these funds is classified at fund level (refer to note 39.1 for unit linked categories) and not at the underlying asset level. This includes the investments in associated collective investment schemes. Although the funds are not rated, fund managers are required to invest in credit assets within the defined parameters stipulated in the fund's mandate. These rules limit the extent to which fund managers can invest in unlisted and/or unrated credit assets and generally restrict funds to the acquisition of investment grade assets. Further credit risk reduction measures are obligatory for South African unit trusts as required by control clauses within the Collective Investment Scheme Control Act, 45 of 2002.

Derivative contracts

The company enters into derivative contracts with A-rated local banks on terms set out by the industry standard International Swaps and Derivatives Agreements (ISDA). In terms of these ISDA agreements, derivative assets and liabilities can be setoff with the same counterparty, resulting in only the net exposure being included in the overall company counterparty exposure analysis.

For OTC equity index options, the credit risk is managed through the creditworthiness of the counterparty in terms of the company's credit risk exposure policy. For OTC interest rate swaps, the company enters into margining arrangements with counterparties, which limit the exposure to each counterparty to a level commensurate with the counterparty's credit rating and the value-at-risk in the portfolio. For exchange-traded options, credit risk is largely mitigated through the formal trading mechanism of the derivative exchange.

Scrip lending
The company is authorised to conduct lending activities as a lender in respect of local listed equity securities and listed government stock to appropriately accredited institutions. Collateral or credit capital (as is applicable) is maintained at a risk-adjusted level of at least 100% of scrip lent. In general, the lender retains the risk and reward of securities lent. The lender fully participates in the market movement of the investment.

Historically, the company monitored collateral levels on a monthly basis and the status of collateral coverage was reported to the executive balance sheet management committee on a quarterly basis. This collateral served as security for the scrip lending arrangements in the event of default by the borrowers.

Loans and receivables
Due from agents, brokers and intermediaries
Commission debtors arise when upfront commission paid on recurring premium policies is clawed-back on a sliding scale within the first two years of origination. As the largest portion of the company's new business arises from brokerages that are subsidiaries of A-rated South African banks, the risk of default is low, and relates mainly to independent intermediaries.

An impairment of commission debits is made to the extent that these are not considered to be recoverable, and a legal recovery process commences.

Policy loans
The company's policy is to lapse a policy automatically where the policy loan debt exceeds the fund value. There is therefore little risk that policy loan debt will remain irrecoverable. Consequently, the policy is considered to be collateral for the debt. The fair value of the collateral is considered to be the value of the policy as determined in accordance with the accounting policies.

Policy loans are secured by policies issued by the company. In terms of the regulations applicable to the company, the value of policy loans may not exceed the value of the policy and as a result the policy loans are fully collateralised by assets which the company owns.

Reinsurance
The company only enters into reinsurance treaties with reinsurers registered with the Financial Services Board. The credit rating of the company is assessed when placing the business and when there is a change in the status of the reinsurer. If a reinsurer fails to pay a claim, the company remains liable for the payment to the contract holder.

The reinsurers contracted represent subsidiaries of large international reinsurance companies, and no material instances of default have yet been encountered.

Regular monthly reconciliations are performed regarding claims against reinsurers, and the payment of premiums to reinsurers.

Credit risk exposure

The company's maximum exposure to credit risk, is through the following classes of assets, which equals their carrying values:

	2017		2016	
	Credit exposure	**Security and credit enhance-ments**	Credit exposure	Security and credit enhance-ments
	Rm	**Rm**	Rm	Rm
Designated at fair value through income				
Debt securities	**78 222**	**268**	85 753	247
Stock and loans to government and other public bodies	**36 557**	**-**	40 187	-
Other debt instruments	**41 665**	**268**	45 566	247
Funds on deposit and other money market instruments	**12 914**	**-**	10 921	-
Unit-linked investments (categorised as interest bearing and money market - refer note 39.1)	**29 153**	**-**	25 391	-
Collective investment schemes	**27 027**	**-**	23 619	-
Other unit-linked investments	**2 126**	**-**	1 772	-
Derivative financial instruments	**2 382**	**-**	1 841	-
Held for trading	**2 382**	**-**	1 841	-
Held for hedging purposes	**-**	**-**	-	-
Interest in subsidiary companies	**59 431**	**-**	53 174	-
Loans and receivables	**7 323**	**-**	6 339	-
Accounts receivable	**1 374**	**-**	1 284	-
Unsettled trades	**141**	**-**	344	-
Loans	**5 808**	**-**	4 711	-
Other receivables				
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**2 535**	**-**	2 705	-
Cash and cash equivalents	**14 054**	**-**	16 499	-
Total assets bearing credit risk	**206 014**	**268**	202 623	247

Financial assets and liabilities designated at fair value through income

Certain instruments in the company's statement of financial position, listed per class in the table below, that would have otherwise been classified as loans and receivables or payables under IAS 39 have been designated at fair value through income.

The current year and cumulative fair value movements in these instruments, were mainly due to market movements. The current year fair value movement includes a R24 million loss (2016: R44 million loss) attributable to credit risk (determined to be the difference between the fair value based on the original credit rating and the fair value based on any adjusted credit rating as observed in the market).

	Carrying value	
	2017 Rm	2016 Rm
Assets		
Debt securities	**55 882**	58 636
Funds on deposit and other money market instruments	**13 122**	10 922
	69 004	69 558
Liabilities		
Policyholder liabilities under investment contracts	**221 463**	218 927
Subordinated call notes	**3 602**	3 557
Carry positions	**7 391**	7 251
	232 456	229 735

Security and credit enhancements
In terms of the credit risk associated with the instruments above, the following collateral is held in order to mitigate the credit risk:

Debt securities, unit-linked investments, cash and cash equivalents and derivative financial instruments
For debt securities, unit-linked investments, cash and cash equivalents and derivative financial instruments, the credit risk is managed through the company's credit risk exposure policy described above.

For OTC equity index options, the credit risk is managed through the creditworthiness of the counterparty in terms of the company's credit risk exposure policy.

For OTC interest rate swaps, the company enters into margining arrangements with counterparties, which limit the exposure to each counterparty to a level commensurate with the counterparties' credit rating and the value-at-risk in the portfolio.

For exchange traded options, credit risk is largely mitigated through the formal trading mechanism of the derivative exchange.

Amounts receivable in terms of long-term insurance contracts and investment contracts with DPF are limited to and secured by the underlying value of the unpaid policy benefits in terms of the policy contract.

Linked notes
The company has put options with Rand Merchant Bank (RMB) against the linked notes listed and issued by RMB for the guaranteed capital amounts invested for when the market value of the underlying instruments supporting the notes decreases below the guaranteed amounts. The carrying value of these investments included in other debt securities designated at fair value through income was R521 million at 2017 (2016: R621 million).

Transfers of financial assets
The company is involved in the transfer of financial assets through scrip lending and sale and repurchase of assets agreements (refer note 18). Refer below for detail on scrip lending arrangements as well as related security and credit enhancements. Also refer to the accounting policies for more detail on the nature of the arrangements.

At 30 June, no scrip lending was in place (2016: R1 million consisting of local listed equity securities). There was no collateral on the scrip lent as at the end of the prior year.

Offsetting

Financial assets
The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements.

Financial assets	Cash and Cash Equivalents		Derivative financial assets	
	2017	2016	**2017**	2016
	Rm	Rm	**Rm**	Rm
Gross amounts of recognised financial assets	**14 054**	16 499	**2 382**	1 841
Gross amounts of recognised financial liabilities set off in the statement of financial position	**-**	-	**-**	-
Net amounts of financial assets presented in the statement of financial position	**14 054**	16 499	**2 382**	1 841
Related amounts not set off in the statement of financial position				
- Financial instruments	**-**	-	**(679)**	(670)
- Cash collateral received	**(362)**	(761)	**(494)**	(57)
Net amount	**13 692**	15 738	**1 209**	1 114

Financial liabilities	Derivative financial liabilities	
	2017	2016
	Rm	Rm
Gross amounts of recognised financial liabilities	**1 758**	2 040
Gross amounts of recognised financial assets set off in the statement of financial position	**-**	-
Net amounts of financial liabilities presented in the statement of financial position	**1 758**	2 040
Related amounts not set off in the statement of financial position		
- Financial instruments	**(629)**	(670)
- Cash collateral received	**(522)**	(818)
Net amount	**607**	552

Loans and receivables
The receivables arising from investment contracts are limited to and secured by the underlying value of the unpaid policy benefits in terms of the policy contract.

Policy loans of R1 187 million (2016: R1 204 million) are limited to and secured by the underlying value of the unpaid policy benefits. For further details refer to note 7. The underlying value of the policy benefits exceeds the policy loan value.

Other receivables
Amounts receivable in terms of long-term insurance contracts and investment contracts with DPF are limited to and secured by the underlying value of the unpaid policy benefits in terms of the policy contract.

Credit quality
The assets in the company's maximum exposure table are analysed in the table below, using national scale long-term credit ratings issued by rating agencies, or national scale ratings generated by an internal model where rating agency ratings are not available. The internal rating scale is based on internal definitions and influenced by definitions published by external rating agencies including Fitch, Moody's, S&P and GCR.

Rating definitions
AAA - National scale ratings denote the highest rating that can be assigned. This rating is assigned to the best credit risk relative to all other issuers.
AA - National ratings denote a very strong credit risk relative to all other issuers.
A - National ratings denote a strong credit risk relative to all other issuers
BBB - National ratings denote an adequate credit risk relative to all other issuers
BB - National ratings denote a fairly weak credit risk relative to all other issuers.
B - National ratings denote a significantly weak credit risk relative to all other issuers.
CCC - National ratings denote an extremely weak credit risk relative to other issuers. (2)
Unrated - The company invests in unrated assets where investment mandates allow for this. These investments are however subject to internal credit assessments.

2017	AAA Rm	AA Rm	A Rm	BBB Rm	BB Rm	B Rm	Unrated Rm	Total Rm
Debt securities - Stock and loans to government and other public bodies	**26 520**	**6 840**	**2 916**	**115**	**98**	**-**	**68**	**36 557**
Debt securities - other debt instruments	**8 533**	**14 464**	**13 789**	**1 205**	**1 953**	**37**	**1 684**	**41 665**
Cash and cash equivalents and funds on deposit	**1 956**	**7 047**	**15 374**	**191**	**1 941**	**32**	**427**	**26 968**
Derivative financial instruments	**493**	**166**	**1 665**	**-**	**-**	**-**	**58**	**2 382**
Other unrated instruments								
Interest in subsidiary companies (1)	**-**	**-**	**-**	**-**	**-**	**-**	**59 431**	**59 431**
Loans and other receivables	**-**	**-**	**-**	**-**	**-**	**-**	**7 323**	**7 323**
Other receivables	**-**	**-**	**-**	**-**	**-**	**-**	**2 535**	**2 535**
Unit-linked investments	**-**	**-**	**-**	**-**	**-**	**-**	**29 153**	**29 153**
	37 502	**28 517**	**33 744**	**1 511**	**3 992**	**69**	**100 679**	**206 014**

2016	AAA Rm	AA Rm	A Rm	BBB Rm	BB Rm	B Rm	Unrated Rm	Total Rm
Debt securities - Stock and loans to government and other public bodies	31 961	7 332	649	112	-	-	133	40 187
Debt securities - other debt instruments	8 824	24 591	6 308	2 062	1 710	352	1 719	45 566
Cash and cash equivalents and funds on deposit	1 553	23 825	1 229	74	2	-	737	27 420
Derivative financial instruments	282	1 482	7		-	-	70	1 841
Other unrated instruments								
Interest in subsidiary companies (1)	-	-	-	-	-	-	53 174	53 174
Loans and other receivables	-	-	-	-	-	-	6 339	6 339
Other receivables	-	-	-	-	-	-	2 705	2 705
Unit-linked investments	-	-	-	-	-	-	25 391	25 391
	42 620	57 230	8 193	2 248	1 712	352	90 267	202 624

(1) Interest in subsidiary companies include R55 529 million (2016: R49 203 million) relating to collective investment schemes which are exposed to minimal credit risk.

Credit quality of reinsurers
The table below represents the reinsured portion of all the businesses with whom the company has reinsured (included in Other receivables) as well as their respective national scale credit rating issued by rating agencies, or national scale ratings generated by an internal model where rating agency ratings are not available:

	2017		2016	
Reinsurer	**Reinsured portion - %**	**Credit rating**	Reinsured portion - %	Credit rating
Swiss Re	34%	AA-	22%	AA-
General Cologne Re	25%	AA+	18%	AA+
Hannover Re	5%	AA-	4%	AA-
RGA Re	9%	AA-	6%	AA-
Munich Re	25%	AA-	17%	AA-
Other	2%	A	33%	-
	100%		100%	

The following tables analyse the age of financial assets that are past due as at the reporting date but not impaired:

2017	**0 – 90 days** Rm	**90 days - 1 year** Rm	**1 - 5 years** Rm	**> 5 years** Rm	**Total** Rm
Loans and receivables					
Loans (including amounts due from agents, brokers and intermediaries)	**6**		**1**	**-**	**7**
Accounts receivable	**499**	**43**	**28**	**-**	**570**
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**401**	**46**	**20**	**17**	**484**
	906	**89**	**49**	**17**	**1 061**

2016	**0 – 90 days** Rm	**90 days - 1 year** Rm	**1 - 5 years** Rm	**> 5 years** Rm	**Total** Rm
2016					
Loans and receivables					
Loans (including amounts due from agents, brokers and intermediaries)	66	3	24	21	114
Accounts receivable	397	411	42	-	850
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	307	24	1	17	349
	770	438	67	38	1 313

46 VALUATION TECHNIQUES

The company's in-house valuation experts perform the valuations of financial assets required for financial reporting purposes. Discussions of valuation processes and results are held at least bi-annually, in line with the company's bi-annual reporting dates

The valuation of the company's assets and liabilities has been classified using a fair value hierarchy that reflects the significance of the inputs used in the valuation. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (ie prices) or indirectly (ie derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

Instruments classified as level 1 have been valued using published price quotations in an active market and include the following classes of financial assets and liabilities:

- Local and foreign listed equity securities
- Stock and loans to government and other public bodies, excluding stock and loans to other public bodies listed on the JSE interest rate market
- Local and foreign listed and unlisted quoted collective investment schemes
- Derivative financial instruments, excluding over-the-counter (OTC) derivatives.

The following are the methods and assumptions for determining the fair value when a valuation technique is used in respect of instruments classified as level 2:

Instrument	Valuation basis	Main assumptions
Equities and similar securities		
• Listed, local and foreign	External valuations/quoted prices	Management applies judgement if an adjustment of quoted prices is required due to an inactive market
Stock and loans to other public bodies		
• Listed, local	Yield of benchmark (listed government) bond	Market input
• Listed, foreign	DCF, benchmarked against similar instrument with the same issuer	Market input
• Unlisted	DCF, real interest rates, six-month JIBAR plus fixed spread or risk-free yield curve plus fixed spread	Market input and appropriate spread

Instrument	Valuation basis	Main assumptions
Other debt securities		
• Listed, local	DCF (BESA and ASSA bond perfect fit zero curve and other published real or nominal yields, uplifted with inflation)/external valuations (linked notes)/published price quotations on JSE equity (preference shares) and interest rate market	Market input, uplifted with inflation
• Listed, foreign	External valuations that are based on published market input	Market input
• Unlisted	DCF (market-related nominal and real discount rates, bank and credit default swap curves, government bond yield curve plus a spread, three-month JIBAR plus fixed spread), external valuations, NAV of a hedge fund	Market input and appropriate spread
Funds on deposit and other money market instruments		
• Listed	DCF (market-related yields)/issue price/external valuations	Market input (based on quotes received from market participants and valuation agents)
• Unlisted	Deposit rates/DCF (market related yields)	Market input (based on quotes received from market participants and valuation agents)
Unit-linked investments	External valuations	Net asset value (assets and liabilities are carried at fair value)
Derivative assets and liabilities	Black-Scholes model/net present value of estimated floating costs less the performance of the underlying index over the contract term/DCF (using fixed contract rates and market-related variable rates adjusted for credit risk, credit default swap premiums, offset between strike price and market projected forward value, yield curve of similar market-traded instruments)	Market input, credit spreads, contract inputs
Subordinated call notes (Liability)	Price quotations on JSE interest rate market (which are based on yield of benchmark bond)	Market input
Carry positions (Liability)	DCF (in accordance with JSE interest rate market repo pricing methodology)	Market input, contract input

Information about fair value measurements using significant unobservable inputs (Level 3)

Description	Fair value at 30 June 2017 Rm	Fair value at 30 June 2016 Rm	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability weighted average)	Relationship of unobservable inputs to fair value
Financial assets						
Securities designated at fair value through						
Equity securities						
Unlisted	**101**	179	Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV the greater the fair value
			Mark to model	Adjusted price earnings ratios	Could vary significantly due to the different risks associated with the investee	The higher the PE multiple the greater the fair value
Debt securities						
Other debt instruments						
Local listed	**8**	-	Mark to model	Fair value of underlying assets	Could vary significantly based on the assets held to match the notes	The higher the value of the underlying assets the greater the fair value
Unlisted	**1 594**	1 989	Discounted cash flow	Nominal interest rate	5.8% to 10.04% 6.75% to 14.01%	The higher the nominal interest rate the lower the fair value of the assets
			Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV the greater the fair value
Unit linked investments						
Collective investment schemes						
Foreign unlisted unquoted	**152**	141	Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV the greater the fair value
Other unit-linked investments						
Local unlisted unquoted	**2 067**	2 193	Adjusted net asset value method	Price per unit	Could vary significantly due to range of holdings	The higher the price per unit, the higher the fair value
				Distributions or net cash flows since last valuation	Could vary significantly due to range of holdings	The fair value varies on distributions / net cash flows and period since last valuation
	3 922	4 502				

Information about fair value measurements using significant unobservable inputs (Level 3)

Description	Fair value at 30 June 2017 Rm	Fair value at 30 June 2016 Rm	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability weighted average)	Relationship of unobservable inputs to fair value
Other	**215**	16				
	4 137	4 518				
Financial liabilities						
Investment contracts designated at fair value through income	**35**	76	Asset and liability matching method	Assets value	Unit price	The asset value increase will increase the fair value of the liability
	35	76				

There were no significant changes in the valuation methods applied since the prior period.

The following table provides an analysis of the financial assets at fair value into the various levels:

2017	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Designated at fair value through income	200 211	77 300	4 137	281 648
Equity securities				
Local listed	49 371	69	-	49 440
Foreign listed	526	-	-	526
Unlisted	-	-	101	101
Debt securities				
Stock and loans to government and other public bodies				
Local listed	23 922	9 272	-	33 194
Foreign listed	-	20	-	20
Unlisted	-	3 343	-	3 343
Other debt instruments				
Local listed	-	19 854	8	19 862
Foreign listed	-	15	-	15
Unlisted	-	20 194	1 594	21 788
Funds on deposit and other money market instruments	-	12 779	135	12 914
Unit-linked investments				
Collective investment schemes				
Local unlisted or listed quoted	78 492	38	2	78 532
Foreign unlisted or listed quoted	26 647	14	17	26 678
Foreign unlisted unquoted	-	358	152	510
Other unit-linked investments				
Local unlisted or listed quoted	585	6 763	-	7 348
Local unlisted unquoted	1 820	4 551	2 067	8 438
Foreign unlisted unquoted	-	-	61	61
Foreign unlisted or listed quoted	-	30	-	30
Investments in associates designated at fair value through income	18 848	-	-	18 848
Derivative financial instruments	1	2 378	3	2 382
Held for trading	1	2 378	3	2 382
Held for hedging purposes	-	-	-	-
Interest in subsidiary companies	55 170	-	4 261	59 431
Designated at fair value	-	-	3 903	3 903
Collective investment schemes	55 170	-	358	55 528
Non-financial assets				
Owner-occupied properties	-	-	1 851	1 851
Investment properties	-	-	6 639	6 639
Non-current assets held for sale	-	-	-	-
	255 382	**79 678**	**16 891**	**351 951**

There were no significant transfers between level 1 and level 2 assets in the current year or in the prior year.

2016	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Designated at fair value through income	204 245	77 908	4 518	286 671
Equity securities				
Local listed	57 711	12	-	57 723
Foreign listed	445	-	-	445
Unlisted	-	-	179	179
Debt securities				
Stock and loans to government and other public bodies				
Local listed	28 055	9 047	-	37 102
Foreign listed	18	6	-	24
Unlisted	-	3 062		3 062
Other debt instruments				
Local listed	-	20 991	-	20 991
Foreign listed	-	99	-	99
Unlisted	-	22 486	1 989	24 475
Funds on deposit and other money market instruments	-	10 921	-	10 921
Unit-linked investments				
Collective investment schemes				
Local unlisted or listed quoted	80 262	50	-	80 312
Foreign unlisted or listed quoted	23 703	7		23 710
Foreign unlisted unquoted	-	363	141	504
Other unit-linked investments				
Local unlisted or listed quoted	117	6 731	-	6 848
Local unlisted unquoted	28	4 070	2 193	6 291
Foreign unlisted unquoted	-	-	16	16
Foreign unlisted or listed quoted	-		-	
Investments in associates designated at fair value through income	13 906	63	-	13 969
Derivative financial instruments		1 841	-	1 841
Held for trading		1 841	-	1 841
Held for hedging purposes	-	-	-	-
Interest in subsidiary companies	48 780	15	4 379	53 174
Designated at fair value	-	-	3 971	3 971
Collective investment schemes	48 780	15	408	49 203
Non-financial assets				
Owner-occupied properties	-	-	1 556	1 556
Investment properties	-	-	6 670	6 670
Non-current assets held for sale	-	-	470	470
	253 025	79 764	17 593	350 382

Collective investment schemes, Investments in collective investment scheme subsidiaries and Investments in associates designated at fair value through income are classified as level 1 due to there being an active market of transactions between investors and collective investment schemes based on a published price.

The following table provides a reconciliation of the fair value of the level 3 financial assets:

	Financial instruments						Non-financial instruments		Non-current assets	
	Designated at fair value through income					Derivative financial instruments				Total
	Equity securities	Debt securities	Unit-linked investments	Funds on deposit and other money market instrument	Interest in subsidiary companies	Held for trading	Owner-occupied properties	Investment properties	Investment properties	
2017	**Rm**	**Rm**	**Rm**		**Rm**	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**
Opening balance	179	1 989	2 350	-	4 379	-	1 556	6 670	470	17 593
Transfer from/(to) other asset classes	-	-	-	-	-	-	(3)	3	-	-
Total realised gains/(losses) in net realised and fair value gains in the income statement	12	(11)	540	-	-	-	(48)	-	-	493
Total unrealised gains/(losses) in net realised and fair value gains in the income statement	(27)	25	66	-	(227)	1	(28)	197	-	7
Total gains/(losses) in other comprehensive income	-	-	-	-	(51)	-	121	-	-	70
Accrued interest in investment income in the income statement	-	110	-	6	-	-	-	-	-	116
Purchases	33	1 331	4 111	157	191	2	262	77	-	6 164
Sales/settlements – at fair value	(96)	(1 849)	(4 768)	(106)	(31)	-	(9)	(308)	(470)	(7 637)
Transfers into level 3	-	7	-	78	-	-	-	-	-	85
Transfers out of level 3	-	-	-		-	-	-	-	-	-
Closing balance	101	1 602	2 299	135	4 261	3	1 851	6 639	-	16 891

	Financial instruments							Non-financial instruments		Non-current assets	
	Designated at fair value through income						Available-for-sale				
	Equity securities	Debt securities	Unit-linked investments	Funds on deposit and other money market instrument	Investments in associates Unit-linked investments	Interest in subsidiary companies	Equity securities	Owner-occupied properties	Investment properties	Investment properties	Total
2016	Rm	Rm	Rm		Rm	Rm	Rm	Rm	Rm	Rm	Rm
Opening Balance	166	3 726	2 176	-	77	3 450	4	1 478	6 650	-	17 727
Transfer from/(to) other asset classes	-	-	-	-	-	-	-	-	(470)	470	
Total realised gains/(losses) in net realised and fair value gains in the income statement	(2)	32	2	-	-		-	(44)	-	-	(12)
Total unrealised gains/(losses) in net realised and fair value gains in the income statement	6	209	297	-	-	(148)	-	(3)	259	-	620
Total gains/(losses) in other comprehensive income	-	-	-	-	-	244	-	108	-	-	352
Accrued interest in investment income in the income statement	-	86	-	-	-	-	-	-	-	-	86
Purchases	27	567	209	-	-	486	-	29	403	-	1 721
Sales/settlements - at fair value	(26)	(1 455)	(270)	-	-	(9)	(4)	(12)	(172)	-	(1 948)
Transfers into level 3	8			-		368	-	-	-	-	376
Transfers out of level 3	-	(1 176)	(64)	-	(77)	(12)	-	-	-	-	(1 329)
Closing balance	179	1 989	2 350	-	-	4 379	-	1 556	6 670	470	17 593

The reason for the transfers out of level 3 is mainly as a result of obtaining access to more observable data and refining the valuation technique. The timing of the transfers is deemed to have occurred at the beginning of the year.

Sensitivity of level 3 financial instruments measured at fair value to changes in key assumptions:

	Financial instruments						
	Designated at fair value through income					Derivative financial instruments	
	Equity securities	Debt securities	Unit-linked investments	Funds on deposit and other money market instrument	Interest in subsidiary companies	Held for trading	Total
2017	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**
Carrying value	**101**	**1 602**	**2 299**	**135**	**4 261**	**3**	**8 401**
Assumption change	10% increase/ (decrease) in markets	1% increase/ (decrease) in interest rates	10% increase/ (decrease) in unit price	1% increase/ (decrease) in interest rates	10% increase/ (decrease) in markets	1% increase/ (decrease) in interest rates	
Effect of increase in assumption	**10**	**(16)**	**230**	**(1)**	**426**	**-**	**649**
Effect of decrease in assumption	**(10)**	**16**	**(230)**	**1**	**(426)**	**-**	**(649)**
2016	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Carrying value	179	1 989	2 350	-	4 379	-	8 897
Assumption change	10% increase/ (decrease) in markets	1% increase/ (decrease) in interest rates	10% increase/ (decrease) in unit price	1% increase/ (decrease) in interest rates	10% increase/ (decrease) in markets	1% increase/ (decrease) in interest rates	
Effect of increase in assumption	18	(20)	235	-	438	-	671
Effect of decrease in assumption	(18)	20	(235)	-	(438)	-	(671)

For the sensitivities relating to Owner-occupied properties and Investment properties, please refer to note 2 and note 4 respectively.

The following liabilities are carried at fair value and have been split into a fair value hierarchy:

2017	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Investment contracts designated at fair value through income	-	221 428	35	221 463
Financial liabilities designated at fair value through income	-	10 993	-	10 993
Subordinated call notes	-	3 602	-	3 602
Carry positions	-	7 391	-	7 391
Derivative financial instruments	-	1 758	-	1 758
Held for trading	-	1 758	-	1 758
	-	234 179	35	234 214

2016	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Investment contracts designated at fair value through income	-	218 851	76	218 927
Financial liabilities designated at fair value through income	-	10 808	-	10 808
Subordinated call notes	-	3 557	-	3 557
Carry positions	-	7 251	-	7 251
Derivative financial instruments	-	2 040	-	2 040
Held for trading	-	2 040	-	2 040
	-	231 699	76	231 775

There were no significant transfers between level 1 and level 2 liabilities in the current or previous year.

A reconciliation of the level 3 liabilities has been provided below:

	Investment contracts designated at fair value through income	
	2017 Rm	2016 Rm
Opening Balance	**76**	144
Total realised gains/losses in net realised and fair value gains in the income statement	**4**	(1)
Total unrealised gains/losses in net realised and fair value gains in the income statement	**(13)**	4
Contract holder movements		
Benefits paid	**(36)**	(76)
Investment return	**4**	5
Closing Balance	**35**	76

Sensitivity: Increasing/decreasing the investment return by 10% would decrease/increase the carrying value of level 3 financial instrument liabilities by R3.5 million (2016: R7.6 million) and R3.5 million (2016: R7.6 million) respectively.

The following table provides an analysis of the fair value of financial assets not carried at fair value in the statement of financial position.

	2017		2016	
	Carrying value	**Fair value**	Carrying value	Fair value
	Rm	**Rm**	Rm	Rm
Assets				
Loans and receivables	**7 323**	**7 352**	6 339	6 369
Loans	**5 808**	**5 837**	4 711	4 741
Unsettled trades	**141**	**141**	344	344
Accounts receivable	**1 374**	**1 374**	1 284	1 284
Cash and cash equivalents	**14 054**	**14 054**	16 499	16 499
	21 377	**21 406**	22 838	22 868

Calculation of fair value

- For accounts receivable, cash and cash equivalents and receivables arising from investment contracts, the carrying value approximates fair value due to their short-term nature.
- The company's policy loan values are based on the surrender values.
- For the remainder of the loans, the carrying value approximates fair value due to their short-term nature.
- The loans and accounts receivable are classified as level 2.

The following table provides an analysis of the fair value of financial liabilities not carried at fair value on the statement of financial position:

	2017		2016	
	Carrying value	**Fair value**	Carrying value	Fair value
	Rm	**Rm**	Rm	Rm
Liabilities				
Investment contracts with DPF	22 750	22 750	23 581	23 581
Other payables	9 483	9 483	8 919	8 919
Payables arising from investment contracts	668	668	156	156
Other payables	8 815	8 815	8 763	8 763
	32 233	32 233	32 500	32 500

Calculation of fair value

- The value of investment contracts with DPF is the retrospective accumulation of the fair value of the underlying assets, which is a reasonable approximation to the fair value of this financial liability.
- The fair value of subordinated redeemable debt is determined using published price quotations in an active market (JSE interest rate market). The debt was redeemed during the current year.
- For payables arising from investment contracts and other payables, the carrying value approximates fair value due to their short-term nature.

ANNEXURE A

At 30 June the following collective investment schemes (CIS) were subsidiaries of the company:

	Carrying value	
	2017	2016
	Rm	Rm
ALUWANI Africa Equity Ringfenced Fund	10	-
ALUWANI Top 25 Fund	121	-
Ampersand Momentum CPI Plus 2% Fund of Funds	840	783
Ampersand Momentum CPI Plus 4% Fund of Funds	898	924
Ampersand Momentum CPI Plus 6% Fund of Funds	276	298
Chrysalis Enhanced Yield Credit Fund	67	-
Contego B5 MET Protected Equity Fund	63	72
Fairtree Equity Prescient Fund	-	1 843
Fairtree Flexible Balanced Prescient Fund	-	33
FGAM Global Cautious Fund IC Ltd, Reinvesting	154	158
Fintax International Balanced Fund IC Ltd, Accumulating	266	299
Fintax International Growth Fund IC Ltd, Accumulating	149	121
Imara MET Balanced Fund	7	52
Imara MET Equity Fund	-	82
Imara MET Income Fund	-	52
KIEF	39	44
MET Odyssey Balanced Fund of Funds	65	95
MET Odyssey Conservative Fund of Funds	22	33
Momentum - Global Balanced Fund IC Limited Class B	209	218
Momentum Balanced Fund	3 389	3 476
Momentum Best Blend Balanced Fund of Funds	1 300	1 271
Momentum Best Blend Flexible Income ABLI Retention Fund	-	8
Momentum Best Blend Multifocus Fund of Funds	1 046	1 231
Momentum Best Blend Specialist Equity Fund	382	407
Momentum Best Blend Stable Fund of Funds	127	136
Momentum Capital Enhancer Fund	160	179
Momentum Conservative Fund	346	343
Momentum Diversified Yield ABIL Retention Fund	-	6
Momentum Diversified Yield Fund	75	80
Momentum Enhanced Growth Fund of Funds	27	-
Momentum Enhanced Stable Growth Fund of Funds	6	-
Momentum Factor 3 Fund of Funds	297	290
Momentum Factor 5 Fund of Fund	764	673
Momentum Factor 7 Fund of Funds	934	819
Momentum Factor Equity Fund of Funds	19	26
Momentum Flexible Fund	113	116
Momentum IF EUR Money Market	159	184
Momentum IF Global Fixed Income	670	798
Momentum IF USD Money Market	219	258
Momentum Industrial Fund	-	36
Momentum International Balanced Fund of Funds	-	126

ANNEXURE A
(continued)

	Carrying value	
	2017 **Rm**	2016 Rm
Momentum International Income Fund	-	68
Momentum MF Global Aggressive	5 259	5 378
Momentum MF Global Balanced	4 528	5 391
Momentum MF Global Moderate	462	438
Momentum MF International Equity	741	725
Momentum Mom Active Bond Fund	430	487
Momentum MoM Emerging Manager Growth Fund	1 695	1 621
Momentum MoM Focused Equity Fund	-	149
Momentum MoM High Growth Fund	1 400	1 329
Momentum MoM Macro Growth Fund	82	139
Momentum MoM Macro Value Fund	2 156	1 954
Momentum MoM Managed Bond Fund	180	176
Momentum MoM Money Market Fund	184	380
Momentum MoM Property Equity Fund	2 097	1 669
Momentum MoM Real Return Fund	1 155	1 109
Momentum MOM Specialist Equity Fund	1 598	1 559
Momentum MoM Ultra Long Term Value Fund	2 611	2 501
Momentum Money Market Fund	4 051	3 295
Momentum Optimal Yield Fund	543	502
Momentum Positive Return Fund	144	136
Momentum Private Equity 2008 Feeder	307	415
Momentum Property Fund	1 529	465
Momentum Real Growth Core Equity Fund	182	0
Momentum Real Growth Property Index Fund	179	0
Momentum SA Defensive Growth Fund	3 401	0
Momentum SA Flexible Fixed Interest Fund	420	0
Momentum SA Real Growth Property Fund	182	-
Momentum Small/Mid-Cap Fund	106	110
Momentum SWIX Index Fund	98	0
Momentum Target Cautious Growth Fund of Funds	1	0
Momentum Target Diversified Growth Fund of Funds	4	0
Momentum Target Growth Fund of Funds	5	0
Momentum Target Growth Plus Fund of Funds	1	0
Momentum Target Stable Growth Fund of Funds	4	0
Momentum Trending Equity Fund	902	0
Momentum Value Equity Fund	2 293	0
RMI Specialist Managers Unconstrained Fixed Interest Fund	109	0
Platinum MET Balanced Prudential Fund of Fund	-	280
Platinum MET Income Provider Fund of Funds	-	107
Sasfin Met Equity Fund	-	320
Stewart MET Absolute Return Fund of Funds	40	47
Stewart MET Macro Equity Fund of Funds	148	165

ANNEXURE A
(continued)

	Carrying value	
	2017	2016
	Rm	Rm
Third Circle MET Defensive Fund of Funds	31	-
Third Circle MET Flexible Fund of Funds	15	-
Truffle MET Institutional Equity Fund	1 971	1 786
Warwick MET Enhanced Income Fund	294	254
Warwick MET International Managed Feeder Fund	291	315
Warwick MET Managed Fund	257	301
Warwick MET Managed Fund of Funds	41	62
Warwick MET Property Fund	182	-
Total investment in CIS subsidiaries	**55 528**	49 203

ANNEXURE B

At 30 June the following collective investment schemes were associates of the company:

	Carrying value	
	2017	2016
	Rm	Rm
36ONE MET Equity Fund	**-**	257
360NE MET Flexible Opportunity Fund	**-**	185
AltRe BCI Real Return Property Fund	**1**	-
ABSA Property Equity Fund	**-**	47
AMF MET Managed Fund (A)	**-**	14
Ampersand Momentum Flexible Property Income Fund	**2**	-
API BCI Worldwide Opportunities Fund of Funds	**35**	-
Ashburton Defensive Fund	**-**	305
Ashburton Growth Fund	**253**	354
Ashburton Stable Fund	**-**	24
Bateleur Equity Prescient Fund	**238**	277
Bovest BCI Conservative Fund of Funds	**40**	-
Bovest BCI Managed Fund of Funds	**92**	-
Brenthurst BCI Worldwide Flexible Fund Of Funds	**11**	-
Brenthurst Global Balanced Fund IC Ltd USD	**14**	14
Cadiz Equity Ladder Fund	**49**	54
Caleo BCI Balanced Fund of Funds	**69**	-
Caleo Global Flexible Fund IC Limited (A)	**160**	233
Cannon MET Equity Fund	**-**	3
Capita BCI Balanced Fund	**138**	139
Capita BCI Cautious Fund	**165**	159
Capita BCI Real Income Fund	**-**	25
Capstone BCI Balanced Fund	**64**	48
Capstone BCI Managed Fund	**-**	43
Catalyst Global Real Estate Fund IC Limited Class A	**-**	3
Clarus MET Property Fund	**15**	22
Clarus MET Wealth Accumulator Fund of Funds	**9**	6
Clarus MET Wealth Creator Fund of Funds	**13**	27
Clarus MET Wealth Preserver Fund of Funds	**9**	16
Contego B1 MET Income Plus Fund	**15**	17
Contego B2 MET Protected Income Fund	**5**	5
Contego B3 MET Protected Balanced Fund	**15**	15
Contego B6 MET Growth Plus Fund	**1**	2
Coronation Bond Fund	**-**	338
Counterpoint MET Balanced Plus	**5**	7
Counterpoint MET Cautious Fund	**13**	19
Counterpoint MET Enhanced Income Fund	**5**	3
Counterpoint MET Global Equity Feeder Fund	**6**	5
Counterpoint MET High Yield Equity Fund	**1**	1

	Carrying value	
	2017 **Rm**	2016 Rm
Counterpoint MET Moderate Fund	**7**	6
Counterpoint Value Fund	**4**	6
Credo Global Equity Fund IC Ltd A GBP, Accumulating	**2**	-
Destiny Multi Asset PSG Fund of Funds	**38**	33
Destiny Prudential PSG Fund of Funds	**16**	14
Discipline + Diversified Balanced Fund IC Ltd E GBP Hedged Shares, Accumulating	**1**	1
Element Earth Equity Fund	**24**	25
Element Islamic Equity Fund	**132**	144
ENGELBERG IP INCOME FUND	**37**	-
Fairtree Equity Prescient Fund (A1)	**2 272**	-
Fairtree Flexible Balanced Prescient Fund	**30**	-
Fairtree MET Smart Beta Fund	**-**	1
FG IP International Flexible Fund of Funds (A)	**173**	-
FGAM Global Growth Fund IC Ltd, Reinvesting	**213**	206
Financial Fitness Balanced IP FOF	**124**	-
Financial Fitness Stable IP FOF	**60**	-
Flagship International Flexible Fund IC Ltd Class A USD, Accumulating	**147**	150
Flagship IP Worldwide Flexible Fund	**85**	92
GCI MET Balance Fund of Funds	**67**	86
GCI MET Balanced Plus Fund	**24**	10
GCI MET Flexible Fund of Funds	**16**	14
GCI MET Income Fund	**7**	1
GCI MET Stable Fund of Funds	**16**	11
GCI MET Worldwide Flexible Fund	**2**	9
GLOBAL MARATHON IP FUND	**-**	36
Huysamer Opportunity Prescient Fund	**2**	2
Imalivest MET Flexible Fund (A)	**1**	6
Imalivest MET Worldwide Flexible Fund	**1**	1
Imara MET Equity Fund (A)	**7**	-
Imara MET Income Fund	**4**	-
Intergral BCI Equity Fund	**87**	-
Investhouse Ci Balanced Fund	**49**	-
Investhouse Ci Cautious Fund	**33**	-
Median BCI Balanced Fund of Funds	**45**	-
Mergence Equity Prescient Fund	**-**	91
MET General Equity Fund	**11**	30
MET Income Plus Fund	**-**	6
MET Worldwide Opportunities fund of fund	**111**	-
Metope MET Property Fund	**3**	1
MI-PLAN IP Beta Equity Fund	**8**	7
MI-PLAN IP Inflation Plus 7	**100**	103

	Carrying value	
	2017 **Rm**	2016 Rm
Momentum - Global Cautious Fund IC Ltd Class A	**36**	16
Momentum - Global Growth Fund IC Ltd Class A	**64**	44
Momentum - Global Managed Fund IC Ltd Class A	**74**	61
Momentum - Sterling Balanced Fund IC Limited Class B	**22**	21
Momentum Africa Equity Fund	**8**	136
Momentum Best Blend Flexible Income Fund	**253**	219
Momentum Bond ABIL Retention Fund	**-**	3
Momentum Bond Fund	**421**	150
Momentum Enhanced Diversified Growth Fund of Funds	**1**	-
Momentum Enhanced Growth Plus Fund of Funds	**1**	-
Momentum Enhanced Yield ABIL Retention Fund	**-**	26
Momentum Enhanced Yield Fund (A)	**1 105**	873
Momentum Equity Fund	**311**	323
Momentum Financials Fund	**48**	46
Momentum IF Global Emerging Markets Equity	**86**	83
Momentum IF Africa ex South Africa Equity	**-**	92
Momentum IF Global Equity	**3 109**	2 872
Momentum Income Plus ABIL Retention Fund	**-**	7
Momentum Income Plus Fund (A)	**812**	564
Momentum Industrial Fund	**10**	-
Momentum Inflation Linked Bond ABIL Retention Fund	**-**	1
Momentum Inflation Linked Bond Portfolio	**68**	50
Momentum International Balanced Fund of Funds	**57**	-
Momentum International Conservative Feeder Funds	**19**	24
Momentum International Equity Feeder Fund	**329**	315
Momentum International Income Fund	**15**	-
Momentum Maximum Income ABIL Retention Fund	**-**	5
Momentum Maximum Income Fund (A)	**132**	138
Momentum Money Market ABIL Retention Fund	**-**	20
Momentum Resources Fund	**15**	18
Momentum Top 25 Fund (A)	**-**	140
Momentum Top 40 Index Fund (A)	**56**	67
Momentum Value Fund (A)	**38**	39
Multi Asset IP Balanced Defensive Fund	**45**	-
Nedgroup Investments XS Diversified FoF	**1 662**	0
Northstar MET Managed Fund	**36**	44
OASIS BALANCED STABLE FUND OF FUNDS	**-**	38
Oasis General Equity Fund	**231**	257
OLD_AS Forum MET Aggressive Fund of Funds	**271**	-
OLD_AS Forum MET Moderate Fund of Funds	**208**	-

	Carrying value	
	2017 Rm	2016 Rm
OLD_Dotport MET Prudential Fund of Funds	**186**	-
OLD_Montrose MET Moderate Fund of Funds	**69**	-
OLD_NeFG MET Equity Fund	**-**	15
OLD_Quantum Balanced FoF	**86**	-
OLD_Quantum Capital Plus FoF	**70**	-
PB Global Flexible Fund IC Limited	**7**	1
Perpetua MET Balanced Fund	**1**	1
Perpetua MET Equity Fund	**-**	1
Platinum BCI Balanced Prudential Fund of Fund	**310**	-
Platinum BCI Income Provider Fund of Funds	**134**	-
Platinum MET Worldwide Flexible Fund	**-**	34
Prescient Equity Active Quant Fund	**48**	73
Prescient Equity Defender Fund	**-**	3
Prescient Private Clients Managed Fund	**17**	-
Prime Balanced Income Fund of Funds	**88**	70
Prime Cabernet Stable Fund of Funds	**309**	423
Prime Chardonnay Moderate Fund of Funds	**-**	201
Prime Classic Port Conservative FoF	**52**	57
Prime Optimal Balanced Fund of Funds	**53**	65
PSG Konsult Houghton Global High Growth Portfolio IC Limited Class B GBP, Accumulating	**-**	3
PSG Konsult Houghton Global High Growth Portfolio IC Limited Class B USD, Accumulating	**-**	1
PSG Konsult Houghton Global Income Portfolio IC Limited Class A GBP, Accumulating	**-**	6
PSG Konsult Houghton Global Income Portfolio IC Limited Class B GBP, Accumulating	**-**	1
PSG Mutual Fund ICC Limited Global Equity Sub-Fund USD	**2**	2
PSG Mutual Fund ICC Limited Global Flexible Fund IC Limited Class A	**7**	1
Quattro Ci Growth Fund of Funds	**150**	-
Quattro Ci Moderate Fund of Funds	**45**	-
Quattro Ci Worldwide Flexible Fund of Funds	**8**	-
Rebalance BCI Inflation Plus 3 Fund	**127**	132
Rebalance BCI Inflation Plus 5 Fund	**165**	186
Rebalance BCI Inflation Plus 7 Fund	**41**	51
Renaissance Global Best Ideas Fund IC Limited D GBP, Accumulating	**31**	33
RMB GROWTH FUSION FUND	**-**	106
RMI Specialist Managers Money Market Fund	**6**	1
RMI Specialist Managers Multi Income Fund	**2**	1
RMI Specialist Managers Unconstrained Fixed Interest Fund	**-**	3
Rootstock MET Worldwide Flexible Fund	**-**	52
SA Asset Management BCI Cautious Fund	**-**	41
SA Asset Management BCI Managed Fund	**110**	111

ANNEXURE B
(continued)

	Carrying value	
	2017 Rm	2016 Rm
SA Asset Management BCI Moderate Fund	**116**	117
Saffron MET Inflation Linked Bond	**14**	13
Saffron MET Opportunity Income Fund	**30**	16
Sasfin MET Equity Fund	**289**	-
Sasfin MET Balanced Fund	**-**	61
Sasfin MET Flexible Income Fund	**-**	4
Sasfin MET Prudential Fund	**-**	262
Sasfin MET Stable Fund	**-**	35
Satrix Rafi40 Index Fund	**41**	88
Seed Absolute Return Fund	**-**	153
Seed Flexible Fund	**-**	31
Select Manager BCI Flexible Growth Fund of Funds	**172**	-
Select Manager BCI Global Moderate Fund of Funds	**118**	-
Select Manager BCI Prudential Fund of Funds	**234**	-
Signature BCI Balanced Fund Of Funds	**33**	-
Signature BCI Stable Fund Of Funds	**29**	-
STANLIB Africa Equity Fund	**-**	14
Third Circle MET Defensive Fund of Funds (R)	**-**	114
Third Circle MET Flexible Fund of Funds (A)	**-**	56
TRIATHLON IP FUND CLASS	**-**	56
True North IP Enhanced Property Fund	**39**	42
True North IP Flexible Equity Fund	**69**	75
Truffle Met Balanced Fund	**-**	245
Truffle MET Flexible Fund	**104**	103
Truffle Met Flexible Income Fund	**3**	3
Truffle MET General Equity Fund	**43**	51
UAM BCI Balanced Fund	**36**	47
Vital BCI Balanced Fund of Funds	**14**	-
VPFP International Cautious Fund IC Ltd Class B, Accumulating	**8**	7
VPFP International Growth Fund IC Ltd Class B, Accumulating	**24**	25
Warwick MET Equity Fund	**19**	1
Warwick MET Property Fund	**-**	2
Wealth Associates BCI Balanced Fund of Funds	**132**	123
Wealth Associates BCI Moderate Fund of Funds	**114**	99
Wealthworks BCI Cautious Fund of Funds	**33**	-
Wealthworks BCI Managed Fund of Funds	**65**	-
Total investment in CIS associates	**18 848**	13 969

ANNEXURE C

Directors Fees paid by the company or other group companies within the MMI group

Companies Act (Section 30 (4) - (6))

2017

Remuneration	Fees	Salary	Bonus	Long-Term Incentive Payments	Expense allowances to the extent that the director is not required to account for the allowance	Contributions paid under any pension scheme excl those required by 4 (b)	Value of shares granted during the year	Value of total units outstanding at 30 June	Loans to director to acquire shares in the company or a group company	In respect of loan by company to director: Interest deferred, waived, forgiven	In respect of loan by company to director: Difference between a fair interest rate and the interest rate charged
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Director/prescribed officer (listed individually)											
MJN Njeke (Chairman)	1 863	-	-	-	-	-	-	-	-	-	-
JP Burger [1]	593	-	-	-	-	-	-	-	-	-	-
F Jakoet	1 004	-	-	-	-	-	-	-	-	-	-
FJC Truter	2 080	-	-	-	-	-	-	-	-	-	-
SC Jurisich	1 100	-	-	-	-	-	-	-	-	-	-
L von Zeuner	1 982	-	-	-	-	-	-	-	-	-	-
NAS Kruger	-	6 206	3 148	12 192	1	341	12 827	68 637	-	-	-
M Vilakazi	-	3 080	1 990	4 343	-	555	6 863	33 445	-	-	-
	8 622	9 286	5 138	16 535	1	896	19 690	102 082	-	-	-

2016

Remuneration	Fees	Salary	Bonus	Performance related payments (incentive schemes)	Expense allowances to the extent that the director is not required to account for the allowance	Contributions paid under any pension scheme excl those required by 4 (b)	Value of shares granted during the year	Value of total units outstanding at 30 June	Loans to director to acquire shares in the company or a group company	In respect of loan by company to director: Interest deferred, waived, forgiven	In respect of loan by company to director: Difference between a fair interest rate and the interest rate charged
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Director/prescribed officer (listed individually)											
MJN Njeke (Chairman)	1 807	-	-	-	-	-	-	-	-	-	-
JP Burger [1]	1 470	-	-	-	-	-	-	-	-	-	-
F Jakoet	958	-	-	-	-	-	-	-	-	-	-
FJC Truter	2 188	-	-	-	-	-	-	-	-	-	-
SC Jurisich	655	-	-	-	-	-	-	-	-	-	-
L von Zeuner	1 692	-	-	-	-	-	-	-	-	-	-
NAS Kruger	-	5 926	5 073	11 247	1	338	14 095	71 271	-	-	-
M Vilakazi	-	3 152	2 914	-	-	555	6 525	32 447	-	-	-
	8 770	9 078	7 987	11 247	1	893	20 620	103 718	-	-	-

[1] JP Burger resigned 22 November 2016

SHAREHOLDER DIARY

Financial year-end	30 June	
Reporting	Annual financial statements published	5 September 2017
	Annual general meeting	24 November 2017
Ordinary dividends	**Interim**	
	Declared	2 March 2017
	Paid	31 March 2017
	Final	
	Declared	6 September 2017
	Paid	29 September 2017

MMI GROUP LTD

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Company registration number

1904/002186/06

Internet address

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http://www.metropolitan.co.za/

Auditors

PricewaterhouseCoopers Inc