Financial statements

Contents

MMI HOLDINGS Ltd
Group annual financial statements
30 June 2017

The preparation of the group's audited consolidated results was supervised by the group chief financial officer, Risto Ketola (FIA, FASSA, CFA).

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 and of the group at the end of the financial year and the profits and losses for the year. 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 group and company financial statements are prepared by management; opinions are obtained from the statutory actuaries of the life insurance companies and the external auditors of the companies.
- The board is advised by the Audit Committee, comprising mostly independent non-executive directors, and the Actuarial Committee. These committees meet regularly with the auditors, the statutory actuaries and the management of the group to ensure that adequate internal controls are maintained, and that the financial information complies with International Financial Reporting Standards and advisory practice notes issued by the Actuarial Society of South Africa. The internal auditors, external auditors and the statutory actuaries of the companies 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, the Long-term Insurance Act, 52 of 1998, and the Short-term Insurance Act, 53 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 group 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 106.

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The annual financial statements, presented on pages 123 to 285, were approved by the board of directors on 5 September 2017 and are signed on its behalf by:

JJ Njeke
Group chairman
Centurion, 5 September 2017

Nicolaas Kruger
Group chief executive officer
Centurion, 5 September 2017

Certificate by the **group 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.

Maliga Chetty
Group company secretary
Centurion, 5 September 2017

Independent auditor's report

TO THE SHAREHOLDERS OF MMI HOLDINGS LIMITED

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

OUR OPINION

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of MMI Holdings Limited (the Company) and its subsidiaries (together the Group) as at 30 June 2017, and its consolidated and separate financial performance and its consolidated and separate 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 Holdings Limited's consolidated and separate financial statements set out on pages 128 to 283 comprise:

- the consolidated and separate statements of financial position as at 30 June 2017;
- the consolidated and separate income statements for the year then ended;
- the consolidated and separate statements of other comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements 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 consolidated and separate financial statements* section of our report.

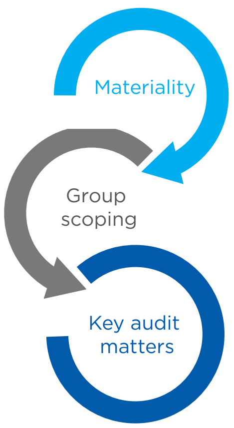
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group 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 group materiality
- R266 million, which represents 5% of adjusted consolidated profit before tax.

Group audit scope
- The Group audit included 38 components. These 38 components (which comprise subsidiaries, reporting packs and divisions) were scoped in as they are financially significant to the individual financial statement line items of the consolidated financial statements.

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 the consolidated and separate 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.

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 consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated 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 group materiality	R266 million
How we determined it	5% of adjusted consolidated profit before tax
Rationale for the materiality benchmark applied	We chose an adjusted consolidated 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 Group and other companies in this industry is most commonly measured by users. The consolidated 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 1. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

How we tailored our group audit scope

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

The group is structured along the following 5 client-centric reporting views, Momentum Retail, Metropolitan Retail, Corporate and Public Sector, International and Shareholder Capital, operating across 3 different geographical locations – Africa, Europe and Asia. The group financial statements are a consolidation of 493 reporting units, comprising the Group's operating businesses and centralised functions. Our scoping included 38 components, which are also considered reporting units, of which these were either a significant financial component or a component of which an identified financial statement line item or items were considered significant. The remainder of the reporting units were considered to be financially inconsequential, individually and in aggregate. MMI Group Limited, a wholly owned subsidiary of MMI Holdings Limited, is audited by PwC and contributes more than 85% of profit before tax to the total consolidated profit before tax.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed by us, as the group engagement team, or component auditors from other PwC network firms or other networks operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

KEY AUDIT MATTERS

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

The key audit matter below relates to that of the consolidated financial statements. We have determined that there are no key audit matters in respect of the separate financial statements to communicate in our report.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
VALUATION OF INSURANCE CONTRACT LIABILITIES The valuation of policyholder liabilities is considered a matter of most significance 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 R107 billion (refer to the critical judgements and accounting estimates and note 8.1 to 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, the Audit Committee's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa, and the other information contained in the 2017 Integrated Report, which we obtained prior to the date of this auditor's report. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate 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 consolidated and separate 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 consolidated and separate 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 CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of the consolidated and separate 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and 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 Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated and separate 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 consolidated and separate 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 consolidated and separate 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 Group's and 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 Group's and 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 consolidated and separate 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 Group and/or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 consolidated and separate 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 Holding Limited for 38 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Andrew Taylor
Registered Auditor
Sunninghill

5 September 2017

Review report on **group embedded value**

OF MMI HOLDINGS LIMITED AND ITS SUBSIDIARIES TO THE DIRECTORS OF MMI HOLDINGS LIMITED

INTRODUCTION

We have reviewed the report on group embedded value of MMI Holdings Limited and its subsidiaries (the "group") for the year ended 30 June 2017, as set out on pages 110 to 122 (the "Report"). The Report is prepared for the purpose of setting out the embedded value of the group for the year ended 30 June 2017. The directors of MMI Holdings Limited are responsible for the preparation and presentation of the Report in accordance with the embedded value basis set out on page 110 to the Report and for determining that the basis of preparation is acceptable in the circumstances. Our responsibility is to express a conclusion on this Report based on our review.

SCOPE OF REVIEW

We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the Report is not prepared, in all material respects, in accordance with the basis set out on page 110 to the Report.

BASIS OF ACCOUNTING AND RESTRICTION ON USE

Without modifying our conclusion, we draw attention to page 110 to the Report, which describes the basis. The Report is prepared for the purpose of setting out the embedded value of the group. As a result, the Report may not be suitable for another purpose. Our report is intended solely for the directors of MMI Holdings Limited and should not be used by any other parties. We agree to the publication of our report in the integrated report of MMI Holdings Limited for the year ended 30 June 2017 provided it is clearly understood by the recipients of the integrated report of MMI Holdings Limited that they enjoy such receipt for information only and that we accept no duty of care to them in respect of our report.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Andrew Taylor
Registered auditor
Sunninghill, 5 September 2017

Report on **group embedded value**

AT 30 JUNE 2017

The report on group embedded value sets out the diluted embedded value (EV), taking into account all shares issued by MMI Holdings Ltd. This report has been prepared in accordance with the EV guidance from the Actuarial Society of South Africa (ASSA) – APN 107. From 1 July 2015, the MMI Group embarked on a new segmental reporting view that is aligned with the new client-centric goals of the group. The analysis of changes in group EV has been disclosed on this new internal structure and the prior year has been restated.

MMI Group Ltd required capital

Stochastic modelling techniques are applied on an ongoing basis to determine and confirm the most appropriate capital levels for covered business. The target is set to maintain supporting capital at such a level that will ensure, within a 95% confidence level, it will at all times cover at least a multiple of the minimum statutory capital adequacy requirement (CAR) over the ensuing five years. The required capital supporting existing covered business excludes capital required in respect of future new business.

Other covered business

A multiple of statutory CAR has been used.

Assets backing required capital

The assumed composition of the assets backing the required capital is consistent with the long-term mandates of the shareholder assets.

Refer to Annexure C for definitions of terms used in this report.

EMBEDDED VALUE RESULTS	2017 Rm	Restated 2016 Rm
Covered business		
Reporting excess – long-term insurance business	**17 161**	17 699
Reclassification to non-covered business	**(2 206)**	(1 897)
	14 955	15 802
Disregarded assets[1]	**(504)**	(531)
Difference between statutory and published valuation methods	**(942)**	(575)
Dilutory effect of subsidiaries[2]	**(53)**	(51)
Consolidation adjustments[3]	**(21)**	(40)
Value of MMI Group Ltd preference shares issued	**(500)**	(500)
Diluted adjusted net worth – covered business	**12 935**	14 105
Net value of in-force business	**21 130**	20 862
Diluted embedded value – covered business	**34 065**	34 967
Non-covered business		
Net assets – non-covered business within life insurance companies	**2 206**	1 897
Net assets – non-covered business outside life insurance companies	**2 849**	2 939
Consolidation adjustments and transfers to covered business[3]	**(2 415)**	(2 776)
Adjustments for dilution[4]	**720**	690
Diluted adjusted net worth – non-covered business	**3 360**	2 750
Write-up to directors' value	**5 098**	5 272
Non-covered business	**6 344**	6 379
Holding company expenses[5]	**(671)**	(557)
International holding company expenses[5]	**(575)**	(550)
Diluted embedded value – non-covered business	**8 458**	8 022
Diluted adjusted net worth	**16 295**	16 855
Net value of in-force business	**21 130**	20 862
Write-up to directors' value	**5 098**	5 272
Diluted embedded value	**42 523**	42 989
Required capital – covered business (adjusted for qualifying debt)[6]	**6 449**	6 098
Surplus capital – covered business	**6 486**	8 007
Diluted embedded value per share (cents)	**2 651**	2 680
Diluted adjusted net worth per share (cents)	**1 016**	1 051
Diluted number of shares in issue (million)[7]	**1 604**	1 604

1 Disregarded assets include Sage intangible assets of R464 million (2016: R491 million), goodwill and various other items.

2 For accounting purposes, MMI Holdings Namibia, Metropolitan Kenya and Cannon have been consolidated at 96% in the statement of financial position (in the prior year, Metropolitan Health was consolidated at 100%). For EV purposes, disclosed on a diluted basis, the non-controlling interests and related funding have been reinstated.

3 Consolidation adjustments include mainly goodwill and intangibles in subsidiaries that are eliminated.

4 Adjustments for dilution are made up as follows:
- Dilutory effect of subsidiaries (note 3): R106 million (2016: R123 million)
- Treasury shares held on behalf of contract holders: R353 million (2016: R292 million)
- Liability – MMI Holdings Ltd convertible preference shares issued to Kagiso Tiso Holdings: R261 million (2016: R275 million)

5 The holding company expenses reflect the present value of projected recurring head office expenses. The international holding company expenses reflect the allowance for support services to the international life assurance and health businesses.

6 The required capital for covered business amounts to R10 051 million (restated 2016: R9 655 million) and is adjusted for qualifying debt of R3 602 million (2016: R3 557 million).

7 The diluted number of shares in issue takes into account all issued shares, assuming conversion of the convertible redeemable preference shares, and includes the treasury shares held on behalf of contract holders.

Report on **group embedded value** (continued)

AT 30 JUNE 2017

EMBEDDED VALUE DETAIL	Adjusted net worth (ANW) Rm	Net value of in-force (VIF) Rm	2017 Rm	Restated 2016 Rm
Covered business				
Momentum Retail	4 337	11 379	15 716	15 388
Metropolitan Retail	2 249	3 758	6 007	6 200
Corporate and Public Sector	2 563	3 846	6 409	6 535
International[1]	1 766	2 147	3 913	3 768
Shareholder Capital	2 020	–	2 020	3 076
Total covered business	12 935	21 130	34 065	34 967

	Adjusted net worth (ANW) Rm	Write-up to directors' value Rm	2017 Rm	Restated 2016 Rm
Non-covered business				
Momentum Retail	979	1 128	2 107	2 271
Investment and savings	596	806	1 402	1 776
Health	6	373	379	128
Short-term insurance	377	137	514	380
Client engagement	–	(188)	(188)	(13)
Metropolitan Retail	–	(78)	(78)	(84)
Client engagement	–	(78)	(78)	(84)
Corporate and Public Sector	1 652	4 095	5 747	5 018
Investment and savings	304	1 066	1 370	1 255
Health	399	1 116	1 515	1 278
Short-term insurance[2]	949	1 904	2 853	2 570
Client engagement	–	9	9	(85)
International[1]	(215)	275	60	822
Investment and savings[3]	190	522	712	877
Life insurance	319	(40)	279	418
Health	366	434	800	725
Short-term insurance	113	26	139	249
Client engagement	–	(92)	(92)	–
Other (shared services)[4]	(1 203)	(575)	(1 778)	(1 447)
Shareholder Capital	944	(322)	622	(5)
Short-term insurance	101	–	101	147
Client engagement	368	–	368	179
Other (head office expenses)[4]	475	(322)	153	(331)
Total non-covered business	3 360	5 098	8 458	8 022
Total embedded value	16 295	26 228	42 523	42 989
Diluted net asset value – non-covered business	(3 360)			
Adjustments to covered business – net asset value	4 226			
Reporting excess – long-term insurance business	17 161			

1 On 1 July 2015, African life and health entities not yet at operating scale were transferred to non-covered business (2016: adjusted net worth of R466 million and value of in-force of R146 million). The prior year has been restated to reflect the transfer.

2 On 1 July 2015, Guardrisk Life Ltd was transferred to non-covered business (2016: adjusted net worth of R169 million and value of in-force of R660 million). The prior year has been restated to reflect the transfer.

3 This includes MMI non-covered subsidiaries domiciled in the United Kingdom and related territories.

4 The International shared services impact reflects the allowance for support services to the international life assurance and health businesses. The Shareholder head office expenses impact reflects the present value of projected recurring head office expenses.

ANALYSIS OF NET VALUE OF IN-FORCE BUSINESS	2017 Rm	Restated 2016 Rm
Momentum Retail	11 379	10 936
Gross value of in-force business	12 865	12 274
Less: cost of required capital	(1 486)	(1 338)
Metropolitan Retail	3 758	3 692
Gross value of in-force business	4 396	4 376
Less: cost of required capital	(638)	(684)
Corporate and Public Sector[1]	3 846	4 223
Gross value of in-force business	4 743	4 988
Less: cost of required capital	(897)	(765)
International[2]	2 147	2 011
Gross value of in-force business	2 403	2 226
Less: cost of required capital	(256)	(215)
Net value of in-force business	**21 130**	**20 862**

[1] Prior year has been restated to exclude Guardrisk Life Ltd from the Corporate and Public Sector.
[2] Prior year has been restated to exclude International life and health entities not yet at operating scale.

DIRECTORS' VALUE PER VALUATION METHOD	Covered methodology Rm	Appraisal value Rm	2017 Rm	Covered methodology Rm	Appraisal value Rm	Restated 2016 Rm
Non-covered business						
Momentum Retail	955	1 152	2 107	630	1 641	2 271
Investment and savings	576	826	1 402	502	1 274	1 776
Health	379	–	379	128	–	128
Short-term insurance	–	514	514	–	380	380
Client engagement	–	(188)	(188)	–	(13)	(13)
Metropolitan Retail	–	(78)	(78)	–	(84)	(84)
Client engagement	–	(78)	(78)	–	(84)	(84)
Corporate and Public Sector	4 388	1 359	5 747	3 868	1 150	5 018
Investment and savings	–	1 370	1 370	–	1 255	1 255
Health	1 535	(20)	1 515	1 298	(20)	1 278
Short-term insurance	2 853	–	2 853	2 570	–	2 570
Client engagement	–	9	9	–	(85)	(85)
International	1 143	(1 083)	60	1 130	(308)	822
Investment and savings	458	254	712	504	373	877
Life insurance	242	37	279	291	127	418
Health	417	383	800	323	402	725
Short-term insurance	26	113	139	12	237	249
Client engagement	–	(92)	(92)	–	–	–
Other (shared services)	–	(1 778)	(1 778)	–	(1 447)	(1 447)
Shareholder Capital	–	622	622	–	(5)	(5)
Short-term insurance	–	101	101	–	147	147
Client engagement	–	368	368	–	179	179
Other (head office expenses)	–	153	153	–	(331)	(331)
Total non-covered business	**6 486**	**1 972**	**8 458**	**5 628**	**2 394**	**8 022**

- Covered methodology refers to APN107 (embedded value methodology) and the risk discount rate of covered business. The Health businesses, Momentum Wealth and Guardrisk are valued using embedded value methodology.
- For Health business, explicit assumptions are made around large scheme terminations. The key assumption is the long-term profit as a percentage of revenue.
- Discounted cash flow models for Investment and savings, as well as Short-term insurance business, include assumptions around future new business. To reflect the additional uncertainty introduced, the risk discount rates for these businesses are approximately 2.8% and 1.8% higher than covered business RDR.
- For Eris, we approximate discounted cash flows using a Price/Earnings multiple.
- The International shared services impact reflects the allowance for support services to the international life assurance and health businesses. The Shareholder head office expenses impact reflects the present value of projected recurring head office expenses.

Report on **group embedded value** (continued)

AT 30 JUNE 2017

ANALYSIS OF CHANGES IN GROUP EMBEDDED VALUE	Notes	Covered business ANW Rm	Gross VIF Rm	Cost of CAR Rm	12 mnths to 30.06.2017 Total EV Rm	Restated 12 mnths to 30.06.2016 Total EV Rm
Profit from new business		(1 495)	2 343	(205)	643	805
Embedded value from new business	A	(1 495)	2 247	(205)	547	712
Expected return to end of period	B	–	96	–	96	93
Profit from existing business		3 603	(486)	6	3 123	1 703
Expected return – unwinding of RDR	B	–	2 675	(348)	2 327	2 260
Release from the cost of required capital	C	–	–	442	442	450
Expected (or actual) net of tax profit transfer to net worth	D	4 091	(4 091)	–	–	–
Operating experience variances	E	207	(177)	(12)	18	73
Development expenses	F	(67)	–	–	(67)	(99)
Operating assumption changes	G	(628)	1 107	(76)	403	(981)
Embedded value profit from operations		2 108	1 857	(199)	3 766	2 508
Investment return on adjusted net worth	H	652	–	–	652	823
Investment variances	I	(144)	(1 116)	(94)	(1 354)	(126)
Economic assumption changes	J	(1)	(177)	14	(164)	(124)
Exchange rate movements	K	(24)	(16)	4	(36)	53
Embedded value profit – covered business		2 591	548	(275)	2 864	3 134
Transfer of business to non-covered business	L	(675)	–	–	(675)	(1 333)
Changes in share capital	M	(20)	(5)	–	(25)	4
Dividend paid		(3 066)	–	–	(3 066)	(2 838)
Change in embedded value – covered business		(1 170)	543	(275)	(902)	(1 033)
Non-covered business						
Change in directors' valuation and other items					(696)	1 080
Holding company expenses					(139)	961
Embedded value (loss)/profit – non-covered business					(835)	2 041
Changes in share capital	M				25	(4)
Dividend paid					610	363
Finance costs – preference shares					(39)	(41)
Transfer of business from covered business	L				675	1 333
Change in embedded value – non-covered business					436	3 692
Total change in group embedded value					(466)	2 659
Total embedded value profit					2 029	5 175
Return on embedded value (%) – internal rate of return					4.7	12.8

ANALYSIS OF CHANGES IN ADJUSTED NET WORTH 12 mnths to 30.06.2017	Covered business Momentum Retail Rm	Metropolitan Retail Rm	Corporate and Public Sector Rm	International Rm	Shareholder Capital Rm	Total Rm
Embedded value from new business	(827)	(201)	(213)	(254)	–	(1 495)
Expected (or actual) net of tax profit transfer to net worth	2 257	810	604	420	–	4 091
Operating experience variances	86	22	8	47	44	207
Development expenses	(36)	–	(31)	–	–	(67)
Operating assumption changes	(503)	50	(122)	(53)	–	(628)
Embedded value profit from operations	977	681	246	160	44	2 108
Investment return on adjusted net worth	269	157	145	63	18	652
Investment variances	(178)	5	21	13	(5)	(144)
Economic assumption changes	(3)	–	–	2	–	(1)
Exchange rate movements	–	–	–	(24)	–	(24)
Embedded value profit – covered business	1 065	843	412	214	57	2 591

ANALYSIS OF CHANGES IN GROSS VALUE OF IN-FORCE 12 mnths to 30.06.2017	Covered business Momentum Retail Rm	Metropolitan Retail Rm	Corporate and Public Sector Rm	International Rm	Total Rm
Embedded value from new business	1 141	431	326	349	2 247
Expected return – unwinding of RDR	1 411	529	579	252	2 771
Expected (or actual) net of tax profit transfer to net worth	(2 257)	(810)	(604)	(420)	(4 091)
Operating experience variances	(50)	(2)	(143)	18	(177)
Operating assumption changes	1 090	134	(173)	56	1 107
Embedded value profit/(loss) from operations	1 335	282	(15)	255	1 857
Investment variances	(701)	(251)	(130)	(34)	(1 116)
Economic assumption changes	(44)	(11)	(99)	(23)	(177)
Exchange rate movements	–	–	–	(16)	(16)
Embedded value profit/(loss) – covered business	590	20	(244)	182	548

ANALYSIS OF CHANGES IN COST OF CAR 12 mnths to 30.06.2017	Covered business Momentum Retail Rm	Metropolitan Retail Rm	Corporate and Public Sector Rm	International Rm	Total Rm
Embedded value from new business	(86)	(52)	(45)	(22)	(205)
Expected return – unwinding of RDR	(156)	(78)	(89)	(25)	(348)
Release from the cost of required capital	210	127	105	–	442
Operating experience variances	–	–	(12)	–	(12)
Operating assumption changes	(50)	–	–	(26)	(76)
Embedded value loss from operations	(82)	(3)	(41)	(73)	(199)
Investment variances	(53)	53	(94)	–	(94)
Economic assumption changes	(7)	(3)	(4)	28	14
Exchange rate movements	–	–	–	4	4
Embedded value (loss)/profit – covered business	(142)	47	(139)	(41)	(275)

Report on **group embedded value** (continued)

AT 30 JUNE 2017

ANALYSIS OF CHANGES IN GROUP EMBEDDED VALUE 12 mnths to 30.06.2017	Covered business Momentum Retail Rm	Metropolitan Retail Rm	Corporate and Public Sector Rm	International Rm	Shareholder Capital Rm	Total Rm
Embedded value from new business	228	178	68	73	–	547
Expected return – unwinding of RDR	1 255	451	490	227	–	2 423
Release from the cost of required capital	210	127	105	–	–	442
Operating experience variances	36	20	(147)	65	44	18
Development expenses	(36)	–	(31)	–	–	(67)
Operating assumption changes	537	184	(295)	(23)	–	403
Embedded value profit from operations	2 230	960	190	342	44	3 766
Investment return on adjusted net worth	269	157	145	63	18	652
Investment variances	(932)	(193)	(203)	(21)	(5)	(1 354)
Economic assumption changes	(54)	(14)	(103)	7	–	(164)
Exchange rate movements	–	–	–	(36)	–	(36)
Embedded value profit – covered business	1 513	910	29	355	57	2 864
Restated 12 mnths to 30.06.2016						
Embedded value from new business	251	191	199	71	–	712
Expected return – unwinding of RDR	1 201	406	513	231	2	2 353
Release from the cost of required capital	222	129	99	–	–	450
Operating experience variances	341	123	(364)	59	(86)	73
Development expenses	(57)	(42)	–	–	–	(99)
Operating assumption changes	(140)	82	(729)	(147)	(47)	(981)
Embedded value profit/(loss) from operations	1 818	889	(282)	214	(131)	2 508
Investment return on adjusted net worth	269	155	115	100	184	823
Investment variances	(91)	41	(88)	12	–	(126)
Economic assumption changes	(87)	(85)	98	(50)	–	(124)
Exchange rate movements	–	–	–	53	–	53
Embedded value profit/(loss) – covered business	1 909	1 000	(157)	329	53	3 134

A. VALUE OF NEW BUSINESS (VNB)

In determining the VNB for retail and traditional corporate business:

- A policy is only taken into account for new business if at least one premium, that has not subsequently been refunded, is recognised in the financial statements.
- Premium increases that have been allowed for in the value of in-force covered business are not included as new business at inception.
- The expected value of future premium increases, resulting from premium indexation on the new recurring premium business written during the financial year under review, is included in the VNB.
- Only client-initiated continuations of individual policies and deferrals of retirement annuity policies after the maturity dates of contracts not previously expected in the present valuation of in-force business, are allowed for.
- For Momentum Retail business, new business exclude negative alterations after the commission clawback period.
- For employee benefit business, increases in business from new schemes or new benefits on existing schemes are included as new business, but new members or salary-related increases under existing schemes are allowed for in the value of in-force covered business.
- Renewable recurring premiums under existing group insurance contracts are treated as in-force covered business.

A. VALUE OF NEW BUSINESS (VNB) *continued*

RECONCILIATION OF LUMP SUM INFLOWS	12 mnths to 30.06.2017 Rm	Restated 12 mnths to 30.06.2016 Rm
Total lump sum inflows	**26 968**	29 784
Inflows not included in value of new business	(6 518)	(6 853)
Term extensions on maturing policies	345	342
Retirement annuity proceeds invested in living annuities	1 107	1 008
Non-controlling interests and other adjustments	(37)	150
Single premiums included in value of new business	**21 865**	24 431

VALUE OF NEW BUSINESS[3, 4] 12 mnths to 30.06.2017	Momentum Retail[5] Rm	Metropolitan Retail Rm	Corporate and Public Sector[1] Rm	International[2] Rm	Total Rm
Value of new business	228	178	68	73	547
Gross	314	230	113	95	752
Less: cost of required capital	(86)	(52)	(45)	(22)	(205)
New business premiums	17 624	2 325	4 637	824	25 410
Recurring premiums	1 135	1 220	751	439	3 545
Single premiums	16 489	1 105	3 886	385	21 865
New business premiums (APE)	2 784	1 331	1 140	478	5 733
New business premiums (PVP)	22 774	5 164	11 121	2 536	41 595
Profitability of new business as a percentage of APE	8.2	13.4	6.0	15.3	9.5
Profitability of new business as a percentage of PVP	1.0	3.4	0.6	2.9	1.3
Restated 12 mnths to 30.06.2016					
Value of new business	251	191	199	71	712
Gross	314	244	244	83	885
Less: cost of required capital	(63)	(53)	(45)	(12)	(173)
New business premiums	18 713	2 343	6 019	841	27 916
Recurring premiums	1 103	1 087	895	400	3 485
Single premiums	17 610	1 256	5 124	441	24 431
New business premiums (APE)	2 864	1 213	1 407	444	5 928
New business premiums (PVP)	23 468	4 936	13 232	2 454	44 090
Profitability of new business as a percentage of APE	8.8	15.7	14.1	16.0	12.0
Profitability of new business as a percentage of PVP	1.1	3.9	1.5	2.9	1.6

1 VNB has been restated to exclude Guardrisk Life Ltd that was transferred to non-covered business.
2 VNB has been restated to exclude the African entities not yet at operating scale that were transferred to non-covered business.
3 VNB and new business premiums are net of non-controlling interests.
4 The VNB has been calculated on closing assumptions. Investment yields at the point of sale have been used for fixed annuity and guaranteed endowment business; for other business the investment yields at the reporting date have been used.
5 For Momentum Retail, the definition of new business has been amended to exclude negative alterations after the commission clawback period. This change aligns with the definition used internally by Momentum Sales.

A. VALUE OF NEW BUSINESS (VNB) *continued*

ANALYSIS OF NEW BUSINESS PREMIUMS 12 mnths to 30.06.2017	Momentum Retail[3] Rm	Metropolitan Retail Rm	Corporate and Public Sector[1] Rm	International[2] Rm	Total Rm
New business premiums	**17 624**	**2 325**	**4 637**	**824**	**25 410**
Recurring premiums	**1 135**	**1 220**	**751**	**439**	**3 545**
Risk	**532**	**811**	**306**	**–**	**1 649**
Savings/investments	**603**	**409**	**442**	**–**	**1 454**
Annuities	**–**	**–**	**3**	**–**	**3**
International	**–**	**–**	**–**	**439**	**439**
Single premiums	**16 489**	**1 105**	**3 886**	**385**	**21 865**
Savings/investments	**15 455**	**374**	**2 917**	**–**	**18 746**
Annuities	**1 034**	**731**	**969**	**–**	**2 734**
International	**–**	**–**	**–**	**385**	**385**
New business premiums (APE)	**2 784**	**1 331**	**1 140**	**478**	**5 733**
Risk	**532**	**811**	**306**	**–**	**1 649**
Savings/investments	**2 149**	**447**	**734**	**–**	**3 330**
Annuities	**103**	**73**	**100**	**–**	**276**
International	**–**	**–**	**–**	**478**	**478**
Restated 12 mnths to 30.06.2016					
New business premiums	18 713	2 343	6 019	841	27 916
Recurring premiums	1 103	1 087	895	400	3 485
Risk	534	703	417	–	1 654
Savings/investments	569	384	477	–	1 430
Annuities	–	–	1	–	1
International	–	–	–	400	400
Single premiums	17 610	1 256	5 124	441	24 431
Savings/investments	16 631	312	3 959	–	20 902
Annuities	979	944	1 165	–	3 088
International	–	–	–	441	441
New business premiums (APE)	2 864	1 213	1 407	444	5 928
Risk	534	704	417	–	1 655
Savings/investments	2 232	415	873	–	3 520
Annuities	98	94	117	–	309
International	–	–	–	444	444

1 VNB has been restated to exclude Guardrisk Life Ltd that was transferred to non-covered business.
2 VNB has been restated to exclude the African entities not yet at operating scale that were transferred to non-covered business.
3 For Momentum Retail, the definition of new business has been amended to exclude negative alterations after the commission clawback period. This change aligns with the definition used internally by Momentum Sales.

A. VALUE OF NEW BUSINESS (VNB) *continued*

Changes in bases and assumptions

The group constantly reviews its EV methodologies to align them with evolving practice and to ensure consistency with current practices.

Assumptions

The main assumptions used in the EV calculations are described below.

Principal assumptions (South Africa)[1, 4]	2017 %	2016 %
Pre-tax investment return		
Equities	**12.9**	12.7
Properties	**10.4**	10.2
Government stock	**9.4**	9.2
Other fixed-interest stocks	**9.9**	9.7
Cash	**8.4**	8.2
Risk-free return[2]	**9.4**	9.2
Risk discount rate (RDR)	**11.7**	11.4
Investment return (before tax) – balanced portfolio[2]	**11.6**	11.4
Renewal expense inflation rate[3]	**6.8**	7.4

1 The principal assumptions relate only to the South African life insurance business. Assumptions relating to international life insurance businesses are based on local requirements and can differ from the South African assumptions.
2 Risk-free returns are taken from an appropriate market-related, risk-free yield curve as at the valuation date. Appropriate risk premia are added to the risk-free yields in order to derive yields on other asset classes. Expected cash flows at each duration are discounted using yields appropriate to that duration. The investment return on balanced portfolio business was calculated by applying the above returns to an expected long-term asset distribution.
3 An inflation rate of 6.0% p.a. is used 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 allowed for in some divisions to reflect the impact of closed books that are in run-off.
4 The assumptions quoted in the table are representative rates derived at the 10-year point of the yield curves.

Non-economic

The EV calculation uses the same best estimate assumptions with respect to future experience as those used in the financial soundness valuation (FSV).

The EV of in-force business includes the expected value of future premium increases resulting from premium indexation arrangements on in-force business. The VNB excludes premium increases during the current year resulting from premium indexation arrangements in respect of in-force business, but includes the expected value of future premium increases in respect of new policies written during the current financial year.

B. EXPECTED RETURN

The expected return is determined by applying the RDR applicable at the beginning of the reporting year to the present value of in-force covered business at the beginning of the reporting year. The expected return on new business is determined by applying the current RDR to the VNB from the point of sale to the end of the year.

C. RELEASE FROM THE COST OF REQUIRED CAPITAL

The release from the cost of required capital represents the difference between the RDR and the expected after tax investment return on the assets backing the required capital over the year.

D. EXPECTED (OR ACTUAL) NET OF TAX PROFIT TRANSFER TO NET WORTH

The expected profit transfer for covered business from the present value of in-force to the ANW is calculated on the statutory valuation method.

E. OPERATING EXPERIENCE VARIANCES

	12 mnths to 30.06.2017 ANW Rm	12 mnths to 30.06.2017 Net VIF Rm	12 mnths to 30.06.2017 EV Rm	Restated 12 mnths to 30.06.2016 EV Rm
Momentum Retail	86	(50)	36	341
Mortality and morbidity[1]	156	9	165	235
Terminations, premium cessations and policy alterations[2]	(111)	169	58	65
Expense variance	40	–	40	(24)
Credit risk variance	39	–	39	20
Other[3]	(38)	(228)	(266)	45
Metropolitan Retail	22	(2)	20	123
Mortality and morbidity[1]	78	5	83	88
Terminations, premium cessations and policy alterations[4]	(61)	(8)	(69)	10
Expense variance	(23)	–	(23)	(9)
Credit risk variance	21	–	21	10
Other	7	1	8	24
Corporate and Public Sector	8	(143)	(135)	(321)
Mortality and morbidity[5]	(152)	–	(152)	(235)
Terminations[6]	20	(211)	(191)	(113)
Expense variance	36	–	36	(122)
Credit risk variance	57	–	57	40
FNB Life – share of profits	–	–	–	37
Other[7]	47	68	115	72
International	47	18	65	59
Mortality and morbidity[1]	35	9	44	73
Terminations, premium cessations and policy alterations	3	1	4	(22)
Expense variance	(3)	–	(3)	5
Other	12	8	20	3
Shareholder Capital	44	–	44	(86)
Opportunity cost of required capital	–	(12)	(12)	(43)
Total operating experience variances	207	(189)	18	73

1 Overall, mortality and morbidity experience for the 12 months were better compared to what was allowed for in the valuation basis.
2 Better than expected experience, especially on voluntary premium increases.
3 Includes one off impact arising from improved modelling of rider benefits as well as increased premium discounts.
4 Unfavourable experience on mainly risk products written by new intermediaries.
5 Worse than expected income disability underwriting experience.
6 Higher than expected terminations on risk business.
7 Includes a release of discretionary liabilities held in respect of data and systems no longer deemed necessary following completion of investigations.

F. DEVELOPMENT EXPENSES

Business development expenses within segments.

G. OPERATING ASSUMPTION CHANGES

	12 mnths to 30.06.2017 ANW Rm	Net VIF Rm	EV Rm	Restated 12 mnths to 30.06.2016 EV Rm
Momentum Retail	**(503)**	**1 090**	**587**	(71)
Mortality and morbidity assumptions[1]	296	114	410	18
Termination assumptions[2]	(680)	620	(60)	24
Renewal expense assumptions	(1)	(55)	(56)	164
Holding company expenses	–	–	–	(325)
Modelling, methodology and other changes[3]	(118)	411	293	48
Metropolitan Retail	**50**	**134**	**184**	82
Mortality and morbidity assumptions	(12)	(3)	(15)	271
Termination assumptions	5	(20)	(15)	(30)
Renewal expense assumptions	(59)	4	(55)	(46)
Holding company expenses	–	–	–	(345)
Modelling, methodology and other changes[3]	116	153	269	232
Corporate and Public Sector	**(122)**	**(173)**	**(295)**	(733)
Mortality and morbidity assumptions[4]	(138)	(220)	(358)	(35)
Termination assumptions[5]	–	105	105	7
Renewal expense assumptions	43	(89)	(46)	(260)
Holding company expenses	–	–	–	(225)
Modelling, methodology and other changes	(27)	31	4	(220)
International	**(53)**	**56**	**3**	(147)
Mortality and morbidity assumptions[1]	19	83	102	52
Termination assumptions[2]	(63)	7	(56)	(25)
Renewal expense assumptions	4	15	19	(21)
Modelling, methodology and other changes	(13)	(49)	(62)	(153)
Shareholder Capital	–	–	–	(47)
Methodology change: cost of required capital	–	(76)	(76)	(65)
Total operating assumption changes	**(628)**	**1 031**	**403**	(981)

1 Allowance for better than assumed mortality and morbidity experience on risk business.
2 Strengthening of the long-term persistency assumptions.
3 Various modelling and methodology changes including the adoption of the yield curve for valuation purposes and changes in the allowance for future premium reviews on Momentum Retail risk products.
4 Allowance for lower future profitability on income disability business.
5 Allowance made for improved persistency experience, mainly on FundsAtWork.

H. INVESTMENT RETURN ON ADJUSTED NET WORTH

	12 mnths to 30.06.2017 Rm	Restated 12 mnths to 30.06.2016 Rm
Investment income	620	614
Capital appreciation and other	68	242
Preference share dividends paid and change in fair value of preference shares	(36)	(33)
Investment return on adjusted net worth	**652**	823

I. INVESTMENT VARIANCES

Investment variances represent the impact of higher/lower than assumed investment returns on current and expected future after tax profits from in-force business.

J. ECONOMIC ASSUMPTION CHANGES

The economic assumption changes include the effect of the change in assumed rate of investment return, expense inflation rate and RDR in respect of local and offshore business.

Report on **group embedded value** (continued)

AT 30 JUNE 2017

K. EXCHANGE RATE MOVEMENTS

The impact of foreign currency movements on International covered businesses.

L. TRANSFER OF BUSINESS TO NON-COVERED BUSINESS

This transfer represents the alignment of net assets and value of in-force of subsidiaries between covered and non-covered business.

M. CHANGES IN SHARE CAPITAL

Changes in share capital include the recapitalisation of some of the International subsidiaries.

SENSITIVITY OF THE IN-FORCE VALUE AND THE VNB

This section illustrates the effect of different assumptions on the ANW, the value of in-force business, the VNB and the cost of required capital. For each sensitivity illustrated, all other assumptions have been left unchanged and, with the exception of the first two sensitivities and the "1% reduction in gross investment return, inflation rate and RDR" sensitivity, the central RDR has been used.

The table below shows the impact on the EV (ANW, value of in-force and cost of required capital) and VNB (gross and net of the cost of required capital) of a 1% change in the RDR. It also shows the impact of independent changes in a range of other experience assumptions. The effect of an equivalent improvement in these experience assumptions would be to increase the base values by a percentage approximately equal to the reductions shown below.

		In-force business			New business written		
COVERED BUSINESS: SENSITIVITIES – 30.06.2017	ANW Rm	Net VIF Rm	Gross VIF Rm	Cost of required capital[3] Rm	Net VNB Rm	Gross VNB Rm	Cost of required capital[3] Rm
Base value	12 935	21 130	24 407	(3 277)	547	752	(205)
1% increase in RDR		19 262	22 943	(3 681)	405	627	(222)
% change		(9)	(6)	12	(26)	(17)	8
1% reduction in RDR		23 198	26 041	(2 843)	708	893	(185)
% change		10	7	(13)	29	19	(10)
10% decrease in future expenses		22 497	25 774	(3 277)	666	871	(205)
% change[1]		6	6	–	22	16	–
10% decrease in lapse, paid-up and surrender rates		21 800	25 077	(3 277)	705	927	(222)
% change		3	3	–	29	23	8
5% decrease in mortality and morbidity for assurance business		23 036	26 343	(3 307)	686	891	(205)
% change		9	8	1	25	18	–
5% decrease in mortality for annuity business		20 777	24 027	(3 250)	535	740	(205)
% change		(2)	(2)	(1)	(2)	(2)	–
1% reduction in gross investment return, inflation rate and RDR	12 935	21 858	25 063	(3 205)	634	839	(205)
% change[2]	–	3	3	(2)	16	12	–
1% reduction in inflation rate		21 912	25 189	(3 277)	622	827	(205)
% change		4	3	–	14	10	–
10% fall in market value of equities and properties	12 618	20 091	23 306	(3 215)			
% change	(2)	(5)	(5)	(2)			
10% reduction in premium indexation take-up rate		20 694	23 971	(3 277)	507	712	(205)
% change		(2)	(2)	–	(7)	(5)	–
10% decrease in non-commission-related acquisition expenses					658	863	(205)
% change					20	15	–
1% increase in equity/property risk premium		21 978	25 255	(3 277)	587	792	(205)
% change		4	3	–	7	5	–

1 No corresponding changes in variable policy charges are assumed, although in practice it is likely that these will be modified according to circumstances.
2 Bonus rates are assumed to change commensurately.
3 The change in the value of the cost of required capital is disclosed as nil where the sensitivity test results in an insignificant change in the value.

The directors take pleasure in presenting their integrated report, which includes the audited financial statements of MMI Holdings Ltd (the company) and its subsidiaries (collectively MMI or the group) for the year ended 30 June 2017.

NATURE OF ACTIVITIES

MMI is a South African based financial services group that offers a comprehensive range of products and administration services, including life and short-term insurance, employee benefits, medical scheme and asset management, to clients in selected African and other countries. MMI Holdings Ltd is listed on the JSE and the NSX.

CORPORATE EVENTS

During the current year, the Financial Services Board (FSB) approved the transfer of the FNB Life book of business from MMI Group Ltd (MMIGL) to FirstRand Life Assurance Ltd. MMIGL recognised a profit of R73 million relating to the sale which was effective from 1 October 2016.

During June 2017, MMI Holdings and African Bank announced a partnership that will allow each other exclusive rights to sell their products to the combined client base. The value sharing partnership comprises lending and insurance business ventures.

PRESENTATION OF FINANCIAL STATEMENTS

The consolidated 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), the Listings Requirements of the JSE and the South African Companies Act, 71 of 2008 (the Companies Act). The accounting policies of the group have been applied consistently to all years 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 group's accounting policies. Such judgement, assumptions and estimates are disclosed in the critical judgements and accounting estimates note, including changes in estimates that are an integral part of the insurance business.

SEGMENTAL INFORMATION

To align segmental reporting to change in management responsibilities, we have made numerous movements across the five segments. The changes can be categorised into two main themes: (1) transfer of smaller operations previously shown as part of the Shareholder Capital segment into the client-facing segment where management responsibility actually rests and (2) transfer of UK operations previously residing in Momentum Retail or in Shareholder Capital to the International segment. The group has also refined the manner in which costs related to our Rewards programme are allocated. This has resulted in Momentum Retail carrying more of these costs than under the previous allocation methodology. The new segmental reporting had no impact on the current or prior year reported earnings, diluted earnings or headline earnings per share, or on the net asset value or net cash flow. Refer to the segmental report for more details.

EV INFORMATION

In addition to the segmental reporting changes, the methodology for classifying business as covered or non-covered has been reviewed and the following changes have been implemented:

- Guardrisk Life business has been reclassified as non-covered as the business being written is mainly fee income in nature rather than underwriting exposure.
- An entity will only be classified as covered business once it has reached sufficient operational scale to support all operational expenses attributable to that entity.

As a result, with effect from 1 July 2015, Guardrisk Life Ltd and a number of International life and health entities were transferred to non-covered business. The prior year has been restated to reflect these transfers to non-covered business.

CORPORATE GOVERNANCE

The board has satisfied itself that appropriate principles of corporate governance (King IV) were applied, where possible, throughout the year under review.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

The group is party to legal proceedings and appropriate provisions are made when losses are expected to materialise. The group had no material capital commitments at 30 June 2017 other than what is disclosed in note 31.

RESULTS OF OPERATIONS

The operating results and the financial position of the group 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.

Group earnings and diluted headline earnings attributable to equity holders for the year under review were R1 536 million (2016: R2 142 million) and R1 872 million (2016: R2 101 million) respectively. Group diluted core headline earnings were R3 208 million (2016: R3 206 million) and diluted core headline earnings per share 200.0 cents (2016: 199.9 cents). Refer to note 1 for a reconciliation of earnings to core headline earnings.

Diluted core headline earnings are a measure of performance that is used by MMI (in addition to earnings and headline earnings) as it is seen by the directors as an appropriate measure to monitor the group's performance. Group diluted core headline earnings for the current year, as disclosed in the segmental report, are as follows:

Analysis of diluted core headline earnings	2017 Rm	2017 % of total	Restated 2016 Rm	Restated 2016 % of total
Momentum Retail	**1 271**	**39**	1 493	47
Metropolitan Retail	**660**	**21**	700	22
Corporate and Public Sector	**835**	**26**	680	21
International	**(166)**	**(5)**	(156)	(5)
Shareholder Capital	**608**	**19**	489	15
Total	**3 208**	**100**	3 206	100

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Details of significant subsidiary companies are contained in Annexure A. Details on associates are contained in note 5 and Annexure B. Details on joint ventures are contained in note 5.

SHARE CAPITAL

Share issue

During the current year 1 537 031 (2016: 1 883 435) A3 preference shares were converted into ordinary shares. Refer to note 15 for more details. There were no share issues or share repurchases in the current year.

Share options

The group has not issued any options on MMI Holdings Ltd shares. The group awards units to employees as part of cash-settled share-based schemes – refer to note 14.2.2 for more details.

MMIGL preference shares

MMIGL has 50 000 non-redeemable, non-cumulative preference shares in issue. These shares are held by MMI Holdings Ltd. Refer to note 15.

SHAREHOLDER DIVIDEND

MMI Holdings Ltd – ordinary share dividend

The following dividends were declared during the current year:

	2017 cents per share	2016 cents per share
Interim – March	**65**	65
Final – September	**92**	92
Total	**157**	157

The group is committed to maintaining an accurate dividend payout ratio, evidenced by the willingness to maintain the current year dividend cover at below the targeted dividend cover ratio of between 1.5 and 1.7 times. The strong capital position of the group, in addition to management's confidence in MMI's longer-term earnings generating capacity, supports MMI's ability to declare a dividend that is unchanged on the prior year.

On 5 September 2017, a gross final dividend of 92 cents per ordinary share was declared by the board, resulting in a total dividend of 157 cents per share. The dividend is payable out of income reserves to all holders of ordinary shares recorded in the register of the company at the close of business on Friday, 29 September 2017, and will be paid on Monday, 2 October 2017. The dividend will be subject to local dividend withholding tax at a rate of 20% (as announced in the 2017 Budget) unless the shareholder is exempt from paying dividend tax or is entitled to a reduced rate. This will result in a net final dividend of 73.60 cents per ordinary share for those shareholders who are not exempt from paying dividend tax.

The last day to trade cum dividend will be Tuesday, 26 September 2017. The shares will trade ex dividend from the start of business on Wednesday, 27 September 2017. Share certificates may not be dematerialised or rematerialised between Wednesday, 27 September 2017 and Friday, 29 September 2017, both days inclusive. The number of ordinary shares in issue at the declaration date was 1 575 371 221. MMI's income tax number is 975 2050 147.

Where applicable, dividends in respect of certificated shareholders will be transferred electronically to shareholders' bank accounts on payment date. In the absence of specific mandates, dividend cheques will be posted to certificated shareholders on or about payment date. Shareholders who hold dematerialised shares will have their accounts with their CSDP or broker credited on the payment date.

Preference share dividends

Dividends of R19.0 million (2016: R20.1 million) (132 cents per share p.a.) were declared on the unlisted A3 MMI Holdings Ltd preference shares as determined by the company's Memorandum of Incorporation.

MMI Holdings Ltd convertible redeemable preference shares (issued to Kagiso Tiso Holdings (Pty) Ltd (KTH))

The terms of the A3 MMI Holdings Ltd preference shares were extended by six months and are redeemable on 29 December 2017 at a redemption value of R9.18 per share unless converted into MMI Holdings Ltd ordinary shares on a one-for-one basis prior to that date. Refer to note 11.2.1 for more details.

SHAREHOLDERS

Details of the group's shareholders are provided in the shareholder profile note of this report.

DIRECTORATE, SECRETARY AND AUDITOR

The following represents a list of the new board appointments and resignations or retirements during the year:

	Appointments	Retirements
Mr W Krzychylkiewicz *(alternate to Mr P Cooper)*	**21 July 2016**	
Prof SC Jurisich	**1 October 2016**	
Mr JP Burger		**22 November 2016**

On 1 December 2016, Mr LL von Zeuner was elected deputy chairman of the board. Detailed information regarding the directors and group company secretary of MMI Holdings Ltd is provided on pages 64 and 65 in the integrated report.

PricewaterhouseCoopers Inc. will continue in office as auditor in accordance with section 90(6) of the Companies Act.

DIRECTORS' INTEREST

Rand Merchant Insurance Holdings Ltd (RMI), of which Mr KC Shubane and Mr P Cooper are non-executive directors, has a direct holding of 25% in the group.

KTH, of which Mr V Nkonyeni is an executive director, had the following strategic empowerment holdings in the group at 30 June 2017:

- A 7.1% interest in MMI Holdings Ltd (29 million MMI Holdings Ltd preference shares and 85 million listed MMI Holdings Ltd ordinary shares).
- Metropolitan Health issued "A" ordinary shares to KTH in prior years that were financed through preference shares in MMI Holdings Ltd. The "A" ordinary shares were convertible into ordinary shares on a one-for-one basis and could only be converted as and when the preference shares were redeemed, also on a one-for-one basis. KTH held a 17.6% interest in Metropolitan Health Corporate (Pty) Ltd (MHC) through this transaction. In June 2017 the group acquired all the MHC Shares held by KTH.

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	434	2 134	2 568	2 586
	498	8 410	8 908	8 926

Refer to the shareholder profile note for percentage of issued shares held by directors.

All transactions in listed shares of the company involving directors were disclosed on SENS as required.

No material changes occurred between the reporting date and the date of approval of the financial statements. The detail in terms of the Listings Requirements of the JSE is set out in the corporate governance report.

The aggregate direct and indirect holdings of the directors in RMI shares at 30 June 2017 are set out below.

	Direct Beneficial '000	Indirect Beneficial '000	Total 2017 '000	Total 2016 '000
Listed				
Non-executive directors	830	4 433	5 263	5 257

The above directors' effective MMI Holdings Ltd shareholding amounts to 0.09% (2016: 0.09%). The executive directors do not hold any RMI shares.

DIRECTORS' EMOLUMENTS

The executive directors have standard employment contracts with the company or its subsidiaries with a one month notice period. The aggregate remuneration of the MMI Holdings Ltd directors for the period ended 30 June 2017 is set out below. The detail in terms of the Listings Requirements of the JSE is set out in the remuneration report.

	Fees R'000	Annual package R'000	Bonus[1] R'000	Long-term incentive payments R'000	Pension fund contri-butions R'000	Ad hoc fees[2] R'000	Total 2017 R'000	Total 2016 R'000
Executive	–	9 286	5 138	16 535	896	10 914	42 769	29 205
Non-executive	16 212	–	–	–	–	410	16 622	16 052
Total	16 212	9 286	5 138	16 535	896	11 324	59 391	45 257

1 Bonus payments relate to the 2016 financial year's bonus.
2 Includes termination payment for a past executive director.

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 a life insurance company in the group.

EVENTS AFTER YEAR-END

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

Statutory excess

AT 30 JUNE 2017

	2017 Rm	2016 Rm
Group excess per reporting basis	**22 956**	24 109
Net assets – other businesses	**(2 849)**	(2 939)
Fair value adjustments on Metropolitan business acquisition and other consolidation adjustments	**(2 946)**	(3 471)
Excess – long-term insurance business, net of non-controlling interests[1]	**17 161**	17 699
Disregarded assets[2]	**(847)**	(983)
Difference between statutory and published valuation methods	**(942)**	(582)
Write-down of subsidiaries and associates for statutory purposes	**(1 328)**	(1 246)
Unsecured subordinated debt	**3 602**	3 557
Consolidation adjustments	**(33)**	(53)
Statutory excess – long-term insurance business	**17 613**	18 392
CAR[3]	**6 577**	6 238
Ratio of long-term insurance business excess to CAR (times)	**2.7**	2.9
Discretionary margins	**12 407**	12 702

1 The long-term insurance business includes both insurance and investment contract business and is the simple aggregate of all the life insurance companies in the group, including life insurance companies in Africa; in respect of Guardrisk only MMI's promoter exposure to the South African long-term insurance business, Guardrisk Life Ltd. It excludes the short-term insurance businesses of Guardrisk, Momentum Short-term Insurance and Cannon (Kenya), as well as the other non-life insurance entities, including African health operations. The figures are after non-controlling interests but excludes certain items which are eliminated on consolidation.

2 Disregarded assets are those as defined in the South African Long-term Insurance Act, 52 of 1998, and are only applicable to South African long-term insurance companies. Adjustments are also made for the international insurance companies from reporting excess to statutory excess as required by their regulators. It includes Sage intangible assets of R464 million (2016: R491 million).

3 Aggregation of separate companies' CARs, with no assumption of diversification benefits.

Statement of **financial position**

AT 30 JUNE 2017

	2017 Rm	2016 Rm	Notes
ASSETS			
Intangible assets	**11 260**	12 433	2
Owner-occupied properties	**4 105**	3 112	3
Property and equipment	**389**	432	
Investment properties	**7 340**	7 422	4
Investments in associates and joint ventures	**595**	680	5
Employee benefit assets	**410**	445	14.1
Financial assets designated at fair value through income	**369 205**	373 630	6.1
Investments in associates designated at fair value through income	**15 039**	10 499	6.2
Derivative financial assets	**2 439**	1 977	6.3
Available-for-sale financial assets	**18**	125	6
Held-to-maturity financial assets	**397**	122	6
Loans and receivables	**7 293**	7 615	6.4
Reinsurance contract assets	**4 495**	5 092	7
Deferred income tax	**249**	279	13
Properties under development	**111**	187	
Insurance and other receivables	**4 621**	4 497	6.5
Current income tax assets	**581**	537	
Non-current assets held for sale	**–**	470	
Cash and cash equivalents	**27 353**	29 148	6.6
Total assets	**455 900**	458 702	
EQUITY			
Equity attributable to owners of the parent	**22 956**	24 109	
Share capital	**13 746**	13 856	15
Other components of equity	**1 788**	1 955	16
Retained earnings	**7 422**	8 298	
Non-controlling interests	**292**	290	
Total equity	**23 248**	24 399	
LIABILITIES			
Insurance contract liabilities			
Long-term insurance contracts	**106 567**	107 093	8.1
Short-term insurance contracts	**7 661**	6 978	8.2
Capitation contracts	**14**	22	
Investment contracts	**257 772**	257 985	
– with discretionary participation features (DPF)	**24 338**	25 195	9.1
– designated at fair value through income	**233 434**	232 790	9.2
Financial liabilities designated at fair value through income	**37 331**	38 374	11.1
Derivative financial liabilities	**1 827**	2 097	6.3
Financial liabilities at amortised cost	**1 229**	1 058	11.2
Reinsurance contract liabilities	**1 368**	973	12
Deferred income tax	**3 198**	3 812	13
Employee benefit obligations	**1 334**	1 452	14.2
Other payables	**14 128**	14 384	11.3
Provisions	**57**	43	
Current income tax liabilities	**166**	32	
Total liabilities	**432 652**	434 303	
Total equity and liabilities	**455 900**	458 702	

Income statement

FOR THE YEAR ENDED 30 JUNE 2017

	2017 Rm	2016 Rm	Notes
Insurance premiums	39 403	38 589	
Insurance premiums ceded to reinsurers	(11 212)	(9 618)	
Net insurance premiums	28 191	28 971	17
Fee income	7 411	7 679	18
Investment contracts	2 477	2 471	
Trust and fiduciary services	1 608	1 892	
Health administration	1 764	1 945	
Other fee income	1 562	1 371	
Investment income	18 958	17 522	19
Net realised and fair value gains	183	11 824	20
Net income	54 743	65 996	
Insurance benefits and claims	30 509	32 532	
Insurance claims recovered from reinsurers	(6 068)	(5 923)	
Net insurance benefits and claims	24 441	26 609	21
Change in actuarial liabilities and related reinsurance	(2 267)	(674)	
Change in long-term insurance contract liabilities	(1 437)	354	8.1
Change in short-term insurance contract liabilities	(86)	(71)	8.2.3
Change in investment contracts with DPF liabilities	(855)	(940)	9.1
Change in reinsurance assets	(278)	(331)	7
Change in reinsurance liabilities	389	314	12
Fair value adjustments on investment contract liabilities	6 650	16 205	9.2
Fair value adjustments on collective investment scheme liabilities	688	(153)	
Depreciation, amortisation and impairment expenses	1 665	1 408	22
Employee benefit expenses	5 249	5 341	23
Sales remuneration	5 283	5 304	24
Other expenses	7 367	6 695	25
Expenses	49 076	60 735	
Results of operations	5 667	5 261	
Share of (loss)/profit of associates and joint ventures	(126)	18	5
Finance costs	(1 023)	(937)	26
Profit before tax	4 518	4 342	
Income tax expense	(2 937)	(2 164)	27
Earnings for year	1 581	2 178	
Attributable to:			
Owners of the parent	1 536	2 142	1
Non-controlling interests	45	36	
	1 581	2 178	
Basic earnings per ordinary share (cents)	98.4	137.6	1
Diluted earnings per ordinary share (cents)	98.1	135.9	1

Statement of **comprehensive income**

FOR THE YEAR ENDED 30 JUNE 2017

	2017 Rm	2016 Rm	Notes
Earnings for year	**1 581**	2 178	
Other comprehensive (loss)/income, net of tax	**(103)**	83	
Items that may subsequently be reclassified to income	**(224)**	(24)	
Exchange differences on translating foreign operations	**(218)**	(27)	16
Available-for-sale financial assets	**(4)**	3	16
Share of other comprehensive loss of associates	**(2)**	–	
Items that will not be reclassified to income	**121**	107	
Land and building revaluation	**142**	124	16
Remeasurements of post-employee benefit funds	**11**	(1)	16
Income tax relating to items that will not be reclassified	**(32)**	(16)	16
Total comprehensive income for year	**1 478**	2 261	
Total comprehensive income attributable to:			
Owners of the parent	**1 434**	2 193	
Non-controlling interests	**44**	68	
	1 478	2 261	

Statement of **changes in equity**

FOR THE YEAR ENDED 30 JUNE 2017

	Share capital Rm	Share premium Rm	Other reserves Rm	Retained earnings Rm	Total attributable to owners of the parent Rm	Non-controlling interests Rm	Total equity Rm	Notes
Balance at 1 July 2015	9	13 795	1 866	8 877	24 547	501	25 048	
Total comprehensive income	–	–	51	2 142	2 193	68	2 261	
Income statement	–	–	–	2 142	2 142	36	2 178	
Other comprehensive income	–	–	51	–	51	32	83	
Dividend paid	–	–	–	(2 475)	(2 475)	(60)	(2 535)	
Employee share scheme – value of services provided	–	–	4	–	4	–	4	
Decrease in treasury shares held on behalf of contract holders	–	35	–	–	35	–	35	
Transfer to other reserves from retained earnings	–	–	32	(32)	–	–	–	16
Transactions with non-controlling interests	–	–	–	(214)	(214)	(219)	(433)	
Conversion of preference shares	–	17	–	–	17	–	17	
Change in non-distributable reserves	–	–	2	–	2	–	2	
Balance at 1 July 2016	**9**	**13 847**	**1 955**	**8 298**	**24 109**	**290**	**24 399**	
Total comprehensive (loss)/income	**–**	**–**	**(102)**	**1 536**	**1 434**	**44**	**1 478**	
Income statement	**–**	**–**	**–**	**1 536**	**1 536**	**45**	**1 581**	
Other comprehensive income	**–**	**–**	**(102)**	**–**	**(102)**	**(1)**	**(103)**	
Dividend paid	**–**	**–**	**–**	**(2 456)**	**(2 456)**	**(53)**	**(2 509)**	
Employee share scheme – value of services provided	**–**	**–**	**(22)**	**–**	**(22)**	**–**	**(22)**	
Increase in treasury shares held on behalf of contract holders	**–**	**(124)**	**–**	**–**	**(124)**	**–**	**(124)**	
Transfer to retained earnings from other reserves	**–**	**–**	**(40)**	**40**	**–**	**–**	**–**	16
Transactions with non-controlling interests	**–**	**–**	**–**	**4**	**4**	**11**	**15**	
Conversion of preference shares	**–**	**14**	**–**	**–**	**14**	**–**	**14**	
Change in non-distributable reserves	**–**	**–**	**(3)**	**–**	**(3)**	**–**	**(3)**	
Balance at 30 June 2017	**9**	**13 737**	**1 788**	**7 422**	**22 956**	**292**	**23 248**	

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	**(12 702)**	(3 740)	28.1
Interest received	**13 750**	12 345	
Dividends received	**3 992**	4 122	
Income tax paid	**(3 463)**	(3 017)	28.2
Interest paid	**(991)**	(868)	28.3
Net cash inflow from operating activities	**586**	8 842	
Cash flow from investing activities			
Acquisition of subsidiaries	**(23)**	–	29
Disposal of non-current assets held for sale	**470**	–	
Acquisition of associates and joint ventures	**(93)**	(485)	
Disposal of associates	**38**	13	
Loans repaid by related parties	**75**	–	
Loans advanced to related parties	**(42)**	(77)	
Dividends from associates	**16**	–	
Purchase of owner-occupied properties	**(552)**	(33)	
Proceeds from disposal of owner-occupied properties	**8**	12	
Purchase of property and equipment	**(139)**	(303)	
Proceeds from disposal of property and equipment	**20**	48	
Purchase of intangible assets	**(163)**	(296)	
Proceeds from sale of subsidiary	**97**	70	
Net cash outflow from investing activities	**(288)**	(1 051)	
Cash flow from financing activities			
Other equity transactions	**(22)**	4	
Decrease of treasury shares held on behalf of contract holders	**(124)**	35	
Transactions with minority shareholders	**15**	(433)	
Proceeds from borrowings	**7 970**	5 280	28.4
Repayment of borrowings	**(7 423)**	(7 418)	28.4
Subordinated call notes issued	**–**	1 250	28.4
Subordinated call notes repaid	**–**	(1 000)	28.4
Dividends paid to equity holders	**(2 456)**	(2 475)	
Dividends paid to non-controlling interest shareholders	**(53)**	(60)	
Net cash outflow from financing activities	**(2 093)**	(4 817)	
Net cash flow	**(1 795)**	2 974	
Cash resources and funds on deposit at beginning	**29 148**	26 174	
Cash resources and funds on deposit at end	**27 353**	29 148	
Made up as follows:			
Cash and cash equivalents as per statement of financial position	**27 353**	29 148	6.6
	27 353	29 148	

Basis of **preparation**

The financial statements, as set out below, have been prepared in accordance with IFRS, 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), the Listings Requirements of the JSE 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
- Investments 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
- Liabilities for cash-settled share-based payment arrangements

Other measurement basis

- Insurance contracts, investment contracts with DPF and reinsurance contracts valued using the FSV basis as set out in SAP 104 – Calculation of the value of the assets, liabilities and capital adequacy requirement of long-term insurers
- Short-term insurance contracts valued using Directive 169 of 2011 – Prescribed requirements for the calculation of the value of assets, liabilities and capital adequacy requirements of short-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 principal accounting policies applied in the preparation of these consolidated financial statements are set out in Annexure D. 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 group's accounting policies. There are areas of complexity involving a higher degree of judgement and areas where assumptions and estimates are significant to the consolidated financial statements. These judgements, assumptions and estimates are disclosed in detail in the notes to the annual financial statements and in a summary in the critical judgements and accounting estimates note.

The preparation of the group's consolidated results was supervised by the group chief financial officer, Risto Ketola (FIA, FASSA, CFA) and have been audited by PricewaterhouseCoopers Inc. in compliance with the requirements of the Companies Act, 71 of 2008.

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

The following published standards are mandatory for the group's accounting period beginning on or after 1 July 2016 and have been implemented in accordance with the transitional provisions of these standards:

- IFRS 10 and IAS 28 (amendments) – Applying the consolidation exemption
- IFRS 11 (amendments) – Joint arrangements
- IFRS 14 – Regulatory deferral accounts
- IAS 1 (amendments) – Disclosure initiative
- IAS 16 and IAS 38 (amendments) – Clarification of acceptable methods of depreciation and amortisation
- IAS 27 (amendment) – Equity method in separate financial statements

Improvements project amendments

- IFRS 5 (amendment) – Non-current assets held for sale and discontinued operations
- IFRS 7 (amendments) – Financial instruments: disclosures
- IAS 19 (amendment) – Employee benefits
- IAS 34 (amendment) – Interim financial reporting

These amendments had no financial impact on the group's earnings or net asset value.

In December 2014 the IASB issued amendments to clarify the guidance in IAS 1 "Presentation of financial statements" on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. MMI has assessed the appropriateness of disclosures in the annual financial statements and have made certain amendments to disclosures as well as removed disclosures which we have considered to not be material. Key changes made included:

- moving of the IFRS 7 "Financial instruments: disclosures" notes previously disclosed in the Risk Management section to the respective financial instrument assets and financial instrument liabilities notes; and
- the application of the principle of materiality to disclosure items resulting in reordering of notes, aggregation or deletion of items no longer considered material and deletion of repetition within the annual financial statements.

Critical **judgements and accounting estimates**

PREPARATION OF FINANCIAL STATEMENTS

The consolidated 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 consolidated 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 group. 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 group'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 group considers control over the fund manager to be a key aspect in determining whether a scheme is controlled by the group 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 2
- Valuation assumptions for both owner-occupied and investment properties – notes 3 and 4
- Provision for current and deferred tax – note 13
- Assumptions and estimates of contract holder liabilities (also applicable to reinsurance contracts) – notes 7, 10 and 12
- Valuation assumptions for financial instruments – Annexure E

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

To align segmental reporting to change in management responsibilities, we have made numerous movements across the five segments. The changes can be categorised into two main themes: (1) transfer of smaller operations previously shown as part of the Shareholder Capital segment into the client-facing segment where management responsibility actually rests and (2) transfer of UK operations previously residing in Momentum Retail or in Shareholder Capital to the International segment. The group has also refined the manner in which costs related to our Rewards programme are allocated. This has resulted in Momentum Retail carrying more of these costs than under the previous allocation methodology. The new segmental reporting had no impact on the current or prior year reported earnings, diluted earnings or headline earnings per share, or on the net asset value or net cash flow.

The client-centric reporting view reflects the following segments:

- **Momentum Retail:** Momentum Retail offers a wide range of financial solutions to middle and affluent market segments. Our product range spans all major insurance lines (life, disability, health, motor, property, and all-risks) and a wide range of savings and investment products. We differentiate our business through the quality of our advice channels and our commitment to high levels of client engagement to encourage our clients to make choices that optimise their financial and physical wellness. Our most popular product solutions are retirement savings and life insurance. Momentum Retail is closely associated with Multiply, our client engagement programme. Clients who have Multiply active on their policies enjoy premium discounts, partner rewards and access to personal financial management tools.
- **Metropolitan Retail:** Metropolitan Retail is a long-established life insurance provider in the lower- and middle-income segments. Metropolitan Retail's most popular products include funeral plans, savings policies, underwritten life cover policies, and annuities. Our funeral plans are low sum insured whole life policies designed to pay for funeral costs. To extend our distribution channels and expand our solutions basket, Metropolitan recently partnered with African Bank to offer insurance and lending products to the existing Metropolitan client base.
- **Corporate and Public Sector:** Corporate and Public Sector provides insurance, administration and investment services to employee groups in the private and public sectors. The business is one of the largest underwriters of death and disability insurance in the corporate market. We also have a strong market share in umbrella funds (multi-employer retirement schemes) and annuity solutions.
- **International:** MMI International operates in the rest of Africa, India and the United Kingdom. We offer a wide range of solutions in these areas, with a focus on life, health and short-term insurance products. In Africa, life insurance is offered in nine countries and health insurance offered in seven as well as in India. Our Multiply wellness programme is only active in India at present, where it complements the health insurance offering.
- **Shareholder Capital:** The Shareholder Capital segment reflects investment income on capital held to support operations, earnings from start-up ventures not yet allocated to other segments, and some costs not allocated to operating segments (eg certain holding company expenses).

The product houses support the segments to deliver best of breed product solutions that segments can distribute to clients. There are five of these centres of excellence supporting the segments, namely: Investments and savings, Life Insurance, Health, Short-term Insurance and Client Engagement Solutions. Each of the centres of excellence designs solutions that meet unique Financial Wellness needs of clients as identified by our segment business.

Intergroup fees are charged at market-related rates. Corporate costs are allocated on a usage or time spent basis. Intergroup charges are eliminated in the "Reconciling items" column. No individual customer generates more than 10% of revenue for the group.

The executive committee assesses the performance of the operating segments based on diluted 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, diluted core headline earnings also exclude the effect of investment income on shareholder assets, as this income is managed on a group basis and is therefore included in the Shareholder Capital segment.

A reconciliation of diluted core headline earnings to earnings is provided in note 1.

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 (continued)

FOR THE YEAR ENDED 30 JUNE 2017

12 mnths to 30.06.2017	Momentum Retail Rm	Metropolitan Retail Rm
Revenue		
Net insurance premiums	24 740	6 898
Recurring premiums	9 663	5 877
Single premiums	15 077	1 021
Fee income	3 496	146
Fee income	3 011	143
Intergroup fee income	485	3
Expenses		
Net payments to contract holders		
External payments	25 360	5 321
Other expenses	5 994	2 448
Sales remuneration	2 184	1 029
Administration expenses	2 631	1 280
Amortisation due to business combinations and impairments	–	73
Cell captive business	–	–
Direct property expenses	–	–
Asset management and other fee expenses	379	60
Holding company expenses	–	–
Intergroup expenses	800	6
Income tax	55	1
Diluted core headline earnings	1 271	660
Operating profit/(loss)	1 861	926
Tax on operating profit	(631)	(267)
Investment income	57	2
Tax on investment income	(16)	(1)
Covered	1 467	685
Non-covered	(196)	(25)
	1 271	660
Actuarial liabilities	195 283	32 417

1 The 'Reconciling items' column includes: investment contract business premiums and claims; intergroup fee income and expenses; non-recurring items included in administration expenses (R263 million); direct property and asset management fees for all entities, except non-life entities, that are set off against investment income for management reporting purposes but shown as an expense for accounting purposes; asset management fees from cell captive business; the amortisation of intangibles relating to business combinations; expenses relating to consolidated collective investment schemes and other minor adjustments to expenses and fee income.

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 R22 978 million, and the total of such non-current assets located in other countries is R859 million.

Corporate and Public Sector Rm	International Rm	Shareholder Capital Rm	Segmental total Rm	Reconciling items[1] Rm	IFRS total Rm
27 167	4 130	–	62 935	(34 744)	28 191
16 951	3 476	–	35 967	(9 291)	26 676
10 216	654	–	26 968	(25 453)	1 515
4 270	835	73	8 820	(1 409)	7 411
3 708	794	2	7 658	(247)	7 411
562	41	71	1 162	(1 162)	–
25 574	2 624	–	58 879	(34 438)	24 441
5 681	2 419	201	16 743	2 821	19 564
1 462	615	–	5 290	(7)	5 283
3 125	1 346	589	8 971	121	9 092
31	88	37	229	977	1 206
186	–	–	186	1 800	1 986
–	–	–	–	443	443
309	84	10	842	649	1 491
–	–	63	63	–	63
568	286	(498)	1 162	(1 162)	–
1 222	96	6	1 380	1 557	2 937
835	(166)	608	3 208	–	3 208
969	(102)	(48)	3 606	–	3 606
(270)	(87)	(12)	(1 267)	–	(1 267)
187	27	822	1 095	–	1 095
(51)	(4)	(154)	(226)	–	(226)
387	203	648	3 390	–	3 390
448	(369)	(40)	(182)	–	(182)
835	(166)	608	3 208	–	3 208
131 420	12 894	–	372 014	–	372 014

Segmental report (continued)

FOR THE YEAR ENDED 30 JUNE 2017

Restated 12 mnths to 30.06.2016	Momentum Retail Rm	Metropolitan Retail Rm
Revenue		
Net insurance premiums	25 634	6 816
Recurring premiums	9 278	5 558
Single premiums	16 356	1 258
Fee income	3 555	209
Fee income	2 992	179
Intergroup fee income	563	30
Expenses		
Net payments to contract holders		
External payments	24 846	6 037
Other expenses	5 907	2 293
Sales remuneration	2 154	967
Administration expenses	2 804	1 158
Amortisation due to business combinations and impairments	–	–
Cell captive business	–	–
Direct property expenses	–	–
Asset management and other fee expenses	248	103
Holding company expenses	–	–
Intergroup expenses	701	65
Income tax	473	320
Diluted core headline earnings	1 493	700
Operating profit/(loss)	2 066	972
Tax on operating profit	(629)	(272)
Investment income	72	–
Tax on investment income	(16)	–
Covered	1 604	723
Non-covered	(111)	(23)
	1 493	700
Actuarial liabilities	202 368	32 942

1 The 'Reconciling items' column includes: investment contract business premiums and claims; intergroup fee income and expenses; non-recurring items included in administration expenses (R190 million); direct property and asset management fees for all entities, except non-life entities, that are set off against investment income for management reporting purposes but shown as an expense for accounting purposes; asset management fees from cell captive business; the amortisation of intangibles relating to business combinations; expenses relating to consolidated collective investment schemes and other minor adjustments to expenses and fee income.

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 R23 089 million, and the total of such non-current assets located in other countries is R1 175 million.

Corporate and Public Sector Rm	International Rm	Shareholder Capital Rm	Segmental total Rm	Reconciling items[1] Rm	IFRS total Rm
26 608	4 054	–	63 112	(34 141)	28 971
15 170	3 322	–	33 328	(8 720)	24 608
11 438	732	–	29 784	(25 421)	4 363
4 940	773	96	9 573	(1 894)	7 679
4 203	664	19	8 057	(378)	7 679
737	109	77	1 516	(1 516)	–
30 568	2 513	–	63 964	(37 355)	26 609
6 309	2 348	121	16 978	1 770	18 748
1 537	653	–	5 311	(7)	5 304
3 385	1 391	256	8 994	443	9 437
12	–	72	84	823	907
203	–	–	203	1 178	1 381
–	–	–	–	317	317
437	26	2	816	532	1 348
–	–	54	54	–	54
735	278	(263)	1 516	(1 516)	–
1 086	117	308	2 304	(140)	2 164
680	(156)	489	3 206	–	3 206
841	(151)	(158)	3 570	–	3 570
(242)	(26)	(17)	(1 186)	–	(1 186)
111	25	850	1 058	–	1 058
(30)	(4)	(186)	(236)	–	(236)
279	185	616	3 407	–	3 407
401	(341)	(127)	(201)	–	(201)
680	(156)	489	3 206	–	3 206
124 330	12 438	–	372 078	–	372 078

Segmental report (continued)

FOR THE YEAR ENDED 30 JUNE 2017

CHANGE IN DILUTED CORE HEADLINE EARNINGS	Change %	12 months to 30.06.2017 Rm	Restated 12 months to 30.06.2016 Rm
Momentum Retail	(15)	1 271	1 493
Metropolitan Retail	(6)	660	700
Corporate and Public Sector	23	835	680
International	6	(166)	(156)
Operating segments	(4)	2 600	2 717
Shareholder Capital	24	608	489
Total diluted core headline earnings	–	3 208	3 206

SEGMENT BY CENTRE OF EXCELLENCE 12 mnths to 30.06.2017	Momentum Retail Rm	Metropolitan Retail Rm	Corporate and Public Sector Rm	International Rm	Shareholder Capital Rm	Total Rm
Covered						
Operating profit	1 467	685	387	203	37	2 779
Investment income	–	–	–	–	611	611
Total	1 467	685	387	203	648	3 390
Non-covered						
Investment and savings	61	–	119	82	–	262
Life insurance	–	–	–	(111)	–	(111)
Health	(29)	–	136	(82)	–	25
Short-term insurance	(162)	(7)	200	(80)	–	(49)
Client engagement	(66)	(18)	(25)	(24)	12	(121)
Unallocated expenses	–	–	–	–	(60)	(60)
Other operations	–	–	18	(154)	8	(128)
Total	(196)	(25)	448	(369)	(40)	(182)
Core earnings	1 271	660	835	(166)	608	3 208
Restated 12 mnths to 30.06.2016[1]						
Covered						
Operating profit/(loss)	1 604	723	275	185	(43)	2 744
Investment income	–	–	4	–	659	663
Total	1 604	723	279	185	616	3 407
Non-covered						
Investment and savings	136	–	108	(19)	–	225
Life insurance	–	–	–	(84)	–	(84)
Health	(43)	–	157	(68)	–	46
Short-term insurance	(151)	(6)	143	(54)	–	(68)
Client engagement	(53)	(17)	(22)	(23)	17	(98)
Unallocated expenses	–	–	–	–	(102)	(102)
Other operations	–	–	15	(93)	(42)	(120)
Total	(111)	(23)	401	(341)	(127)	(201)
Core earnings	1 493	700	680	(156)	489	3 206

[1] Refer to segmental report paragraph in the Directors' report for more information on the restatements.

INVESTMENTS AND SAVINGS CENTRE OF EXCELLENCE – NON-COVERED BUSINESS 12 mnths to 30.06.2017	Momentum Retail Rm	Corporate and Public Sector Rm	International Rm	Total Rm
Revenue	**1 118**	**865**	**490**	**2 473**
Fee income	710	379	373	1 462
Performance fees	3	13	–	16
Intergroup fees	344	340	13	697
Investment income	61	121	1	183
Fair value gains	–	12	103	115
Expenses and finance costs	**(1 014)**	**(689)**	**(405)**	**(2 108)**
Fair value adjustments on investment contracts	–	–	(103)	(103)
Other expenses	(1 005)	(640)	(302)	(1 947)
Finance costs	(9)	(49)	–	(58)
Share of profit of associates	–	1	–	1
Profit before tax	104	177	85	366
Income tax expense	(43)	(32)	(3)	(78)
Non-controlling interest	–	(26)	–	(26)
Core earnings	61	119	82	262
Operating profit before tax	61	90	84	235
Tax on operating profit	(30)	(11)	(3)	(44)
Investment income	43	55	1	99
Tax on investment income	(13)	(15)	–	(28)
Diluted core headline earnings	61	119	82	262
Restated 12 mnths to 30.06.2016				
Revenue	1 161	746	362	2 269
Fee income	771	329	379	1 479
Performance fees	12	–	–	12
Intergroup fees	325	333	15	673
Investment income	53	45	12	110
Fair value gains/(losses)	–	39	(44)	(5)
Expenses and finance costs	(970)	(595)	(397)	(1 962)
Fair value adjustments on investment contracts	–	–	41	41
Other expenses	(962)	(560)	(423)	(1 945)
Finance costs	(8)	(35)	(15)	(58)
Share of profit of associates	–	13	–	13
Profit/(Loss) before tax	191	164	(35)	320
Income tax expense	(55)	(38)	16	(77)
Non-controlling interest	–	(18)	–	(18)
Core earnings	136	108	(19)	225
Operating profit/(loss) before tax	146	134	(29)	251
Tax on operating profit	(48)	(32)	14	(66)
Investment income	46	8	(2)	52
Tax on investment income	(8)	(2)	(2)	(12)
Diluted core headline earnings	136	108	(19)	225

Segmental report (continued)

FOR THE YEAR ENDED 30 JUNE 2017

HEALTH CENTRE OF EXCELLENCE – NON-COVERED BUSINESS 12 mnths to 30.06.2017	Momentum Retail Rm	Corporate and Public Sector Rm	International Rm	Total Rm
Revenue	560	2 049	468	3 077
Net insurance premiums	209	390	259	858
Fee income	340	1 419	191	1 950
Investment income	11	27	18	56
Intergroup fees	–	213	–	213
Expenses and finance costs	(603)	(1 856)	(384)	(2 843)
Net payments to contract holders	(151)	(279)	(168)	(598)
Other expenses	(450)	(1 576)	(216)	(2 242)
Finance costs	(2)	(1)	–	(3)
Share of loss of associates	–	–	(105)	(105)
(Loss)/profit before tax	(43)	193	(21)	129
Income tax expense	14	(57)	(36)	(79)
Non-controlling interest	–	–	(25)	(25)
Earnings attributable to ordinary shareholders	(29)	136	(82)	25
Operating (loss)/profit before tax	(53)	167	(72)	42
Tax on operating profit	17	(49)	(24)	(56)
Investment income	10	26	15	51
Tax on investment income	(3)	(8)	(1)	(12)
Diluted core headline earnings	(29)	136	(82)	25
Closed schemes	–	106	66	172
Open scheme	(23)	(6)	(148)	(177)
Other	(6)	36	–	30
	(29)	136	(82)	25

	Principal members	Principal members	Lives
Closed schemes	–	834 061	404 756
Open schemes	108 244	50 380	207 882
	108 244	884 441	612 638

HEALTH CENTRE OF EXCELLENCE – NON-COVERED BUSINESS Restated 12 mnths to 30.06.2016	Momentum Retail Rm	Corporate and Public Sector Rm	International Rm	Total Rm
Revenue	433	2 089	823	3 345
Net insurance premiums	176	390	623	1 189
Fee income	249	1 640	192	2 081
Investment income	8	27	8	43
Intergroup fees	–	32	–	32
Expenses and finance costs	(493)	(1 862)	(844)	(3 199)
Net payments to contract holders	(133)	(294)	(476)	(903)
Other expenses	(358)	(1 568)	(368)	(2 294)
Finance costs	(2)	–	–	(2)
(Loss)/profit before tax	(60)	227	(21)	146
Income tax expense	17	(61)	(30)	(74)
Non-controlling interests	–	–	(17)	(17)
Earnings attributable to ordinary shareholders	(43)	166	(68)	55
Dilutory effect of subsidiaries	–	(9)	–	(9)
Diluted core headline earnings	(43)	157	(68)	46
Operating (loss)/profit before tax	(66)	191	(65)	60
Tax on operating profit	19	(55)	(18)	(54)
Investment income	6	27	16	49
Tax on investment income	(2)	(6)	(1)	(9)
Diluted core headline earnings	(43)	157	(68)	46
Closed schemes	–	113	(68)	45
Open scheme	(43)	9	–	(34)
Other	–	35	–	35
	(43)	157	(68)	46

	Principal members	Principal members	Lives
Closed schemes	–	830 548	459 688
Open schemes	95 888	47 574	–
	95 888	878 122	459 688

INTRODUCTION ABOUT US PERFORMANCE GOVERNANCE REMUNERATION FINANCIAL STATEMENTS

Segmental report (continued)

FOR THE YEAR ENDED 30 JUNE 2017

SHORT-TERM INSURANCE CENTRE OF EXCELLENCE 12 mnths to 30.06.2017	Momentum Retail Rm	Metropolitan Retail Rm	Corporate and Public Sector Rm	International Rm	Total Rm
Net insurance premiums	616	–	–	148	764
Fee income	13	3	566	17	599
Management fees	–	–	435	–	435
Investment fees	–	–	73	–	73
Underwriting fees	–	–	58	–	58
Other fee income	13	3	–	17	33
Investment income	30	–	93	12	135
Fair value losses	–	–	–	(9)	(9)
Total income	659	3	659	168	1 489
Expenses and finance costs	(784)	(9)	(379)	(241)	(1 413)
Net payments to contract holders	(449)	–	–	(133)	(582)
Change in actuarial liabilities	–	–	–	7	7
Other expenses	(335)	(9)	(367)	(115)	(826)
Finance costs	–	–	(12)	–	(12)
(Loss)/Profit before tax	(125)	(6)	280	(73)	76
Income tax expense	(37)	(1)	(80)	(9)	(127)
Non-controlling interest	–	–	–	2	2
Earnings attributable to ordinary shareholders	(162)	(7)	200	(80)	(49)
Operating (loss)/profit before tax	(130)	(6)	187	(71)	(20)
Tax on operating profit	(34)	(1)	(54)	(9)	(98)
Investment income	3	–	93	–	96
Tax on investment income	(1)	–	(26)	–	(27)
Diluted core headline earnings	(162)	(7)	200	(80)	(49)
Momentum Short-term Insurance	(83)	–	–	–	(83)
MMI Short-term Insurance Administration	(79)	(7)	–	(25)	(111)
Guardrisk Group	–	–	200	–	200
Cannon Short-term	–	–	–	(55)	(55)
	(162)	(7)	200	(80)	(49)

SHORT-TERM INSURANCE CENTRE OF EXCELLENCE Restated 12 mnths to 30.06.2016	Momentum Retail Rm	Metropolitan Retail Rm	Corporate and Public Sector Rm	International Rm	Total Rm
Net insurance premiums	570	–	–	208	778
Fee income	21	–	463	15	499
Management fees	–	–	405	–	405
Investment fees	–	–	62	–	62
Underwriting fees	–	–	(6)	–	(6)
Other fee income	21	–	2	15	38
Investment income	25	–	64	21	110
Fair value losses	–	–	–	(4)	(4)
Total income	616	–	527	240	1 383
Expenses and finance costs	(793)	(8)	(334)	(305)	(1 440)
Net payments to contract holders	(467)	–	–	(126)	(593)
Change in actuarial liabilities	–	–	–	(26)	(26)
Other expenses	(326)	(8)	(323)	(153)	(810)
Finance costs	–	–	(11)	–	(11)
(Loss)/Profit before tax	(177)	(8)	193	(65)	(57)
Income tax expense	26	2	(50)	8	(14)
Non-controlling interest	–	–	–	3	3
Earnings attributable to ordinary shareholders	(151)	(6)	143	(54)	(68)
Operating (loss)/profit before tax	(195)	(8)	130	(65)	(138)
Tax on operating profit	31	2	(33)	8	8
Investment income	18	–	64	3	85
Tax on investment income	(5)	–	(18)	–	(23)
Diluted core headline earnings	(151)	(6)	143	(54)	(68)
Momentum Short-term Insurance	(124)	–	–	–	(124)
MMI Short-term Insurance Administration	(27)	(6)	–	(9)	(42)
Guardrisk Group	–	–	143	–	143
Swaziland	–	–	–	(2)	(2)
Tanzania	–	–	–	1	1
Cannon Short-term	–	–	–	(44)	(44)
	(151)	(6)	143	(54)	(68)

Notes to the **financial statements**

FOR THE YEAR ENDED 30 JUNE 2017

	Basic earnings 2017	Basic earnings 2016	Diluted earnings 2017	Diluted earnings 2016
1 GROUP EARNINGS PER ORDINARY SHARE				
Attributable to owners of the parent				
Earnings (cents per share)[1,2]	**98.4**	137.6	**98.1**	135.9
Headline earnings (cents per share)	**118.3**	133.8	**117.7**	132.2
Core headline earnings (cents per share)	**203.9**	203.1	**200.0**	199.9

Reconciliation of headline earnings attributable to owners of the parent	Basic earnings 2017 Rm	Basic earnings 2016 Rm	Diluted earnings 2017 Rm	Diluted earnings 2016 Rm
Earnings – equity holders of group	**1 536**	2 142	**1 536**	2 142
Finance costs – convertible preference shares			**39**	41
Dilutory effect of subsidiaries[3]			**(14)**	(23)
Diluted earnings			**1 561**	2 160
Intangible assets and other impairments[4]	**417**	158	**417**	158
Tax on intangible assets and other impairments	**(61)**	(10)	**(61)**	(10)
Release of foreign currency translation reserve	**–**	(92)	**–**	(92)
Gain on sale of business/subsidiary	**(94)**	(115)	**(94)**	(115)
Tax on gain on sale of business/subsidiary	**21**	–	**21**	–
Impairment of owner-occupied property below cost	**28**	–	**28**	–
Headline earnings[5]	**1 847**	2 083	**1 872**	2 101
Net realised and fair value losses/(gains) on excess	**94**	(112)	**94**	(112)
Basis and other changes and investment variances	**458**	517	**458**	517
Adjustments for MMI shares held by policyholder funds	**(42)**	(98)	**(42)**	(73)
Amortisation of intangible assets relating to business combinations	**577**	618	**577**	618
Non-recurring items[6]	**249**	155	**249**	155
Core headline earnings[7]	**3 183**	3 163	**3 208**	3 206
Weighted average number of ordinary shares in issue (million)	**1 561**	1 557	**1 561**	1 557
Adjustments for				
Assumed conversion of 29 million (2016: 30 million) preference shares (weighted)			**30**	32
Diluted weighted average – earnings and headline earnings (million)[8]			**1 591**	1 589
Treasury shares held on behalf of contract holders			**13**	15
Diluted weighted average – core headline earnings (million)[8]			**1 604**	1 604

[1] Basic earnings per share – In calculating the basic earnings per share, the exclusion from the income statement of the income in respect of treasury shares requires that these shares similarly be excluded from the weighted average number of ordinary shares in issue.

[2] Diluted earnings per share – This is calculated using the weighted average number of ordinary shares in issue, assuming conversion of all issued shares with dilutive potential. The convertible redeemable preference shares not recognised in accordance with IAS 39, have dilutive potential. The preference shares are assumed to have been converted into ordinary shares and earnings adjusted to eliminate the interest expense.

[3] In the current year, the MMI Holdings Namibian group, Metropolitan Kenya and Cannon are consolidated at 96% in the results. In the prior year, Metropolitan Health was also consolidated at 100%. For purposes of diluted earnings, diluted non-controlling interests and investment returns are reinstated. For Metropolitan Health, this is no longer the case as all the shares in Metropolitan Health Corporate (Pty) Ltd which were held by Kagiso Tiso Holdings (Pty) Ltd have been purchased by the group in June 2017.

[4] The current year includes impairments relating to:
- Goodwill, customer relations and internally developed software (R213 million) in the International segment that are recognised on acquisition of subsidiaries as the companies are making losses. A risk discount rate of 18.2% (2016: 19.0%) has been used in the impairment calculation.
- Internally developed software in International (R88 million) and Metropolitan Retail (R76 million) whereby certain components will no longer be used and/or the costs to maintain the system exceed the economic benefits. A risk discount rate of 11.6% has been used in the impairment calculation.

The prior year includes the impairment of Cannon goodwill, software in International and health and Hello Doctor goodwill.

[5] Headline earnings consist of operating profit, investment income, net realised and fair value gains, investment variances and basis and other changes.

[6] Non-recurring items include costs relating mainly to the restructuring of the group. The current year also includes core earnings/losses relating to companies in countries that the group has or will be exiting in the near future.

[7] Core headline earnings 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.

[8] For diluted core headline earnings per share, treasury shares held on behalf of contract holders are deemed to be issued. For diluted earnings and headline earnings per share, treasury shares held on behalf of contract holders are deemed to be cancelled.

ACC POLICY Annex D4	2017 Rm	2016 Rm
2 INTANGIBLE ASSETS		
Goodwill	**1 128**	1 237
Value of in-force business acquired	**4 527**	4 844
Customer relationships	**1 617**	2 061
Brands	**806**	886
Broker network	**281**	303
Deferred acquisition costs on long-term investment business	**2 196**	2 202
Deferred acquisition costs on short-term insurance business	**88**	78
Computer software	**617**	822
	11 260	12 433
2.1 Goodwill		
Cost	**1 393**	1 402
Accumulated impairment	**(265)**	(165)
Carrying amount	**1 128**	1 237
Carrying amount at beginning	**1 237**	1 333
Business combinations (refer to note 29)	**11**	–
Impairment charges	**(100)**	(104)
Exchange differences	**(20)**	8
Carrying amount at end	**1 128**	1 237
Cash-generating units (CGUs)		
Ex-Metropolitan group – Metropolitan Retail (Metropolitan/Momentum merger)	**170**	170
MMI Health – Corporate and Public Sector and Momentum Retail	**127**	127
Momentum Manager of Managers – Corporate and Public Sector	**14**	14
Eris Property Group – Corporate and Public sector	**191**	191
Guardrisk – Corporate and Public Sector	**567**	567
Providence – Corporate and Public Sector	**19**	19
Cannon – International	**–**	62
Other[1]	**40**	87
	1 128	1 237

[1] Included in Other is exchange rate differences of negative R1 million (2016: positive R19 million).

Critical accounting estimates and judgements

Goodwill is allocated to CGUs for the purpose of impairment testing.

The recoverable value of these CGUs is determined based on value-in-use calculations. These calculations use 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. These calculations are dependent on the assumptions disclosed below.

Goodwill relating to the Cannon (International segment) and Momentum Financial Technology (International segment) acquisitions were impaired by R62 million (2016: R41 million) and R38 million (2016: Rnil) respectively during the current year due to these companies making losses. Goodwill of R63 million relating to Hello Doctor (International and Corporate and Public Sector segments) was also impaired in the prior year.

	2017		2016	
	RDR	Growth rate	RDR	Growth rate
Assumptions				
Ex-Metropolitan group	**12%**	**7%**	11%	7%
MMI Health	**12%**	**8%**	11%	7%
Guardrisk	**12%**	**8%**	11%	8%
Cannon	**18%**	**10%**	19%	10%

Changes in the assumptions relating to the CGUs are not considered to be materially sensitive in the current or prior year. Eris Property Group uses a price-earnings ratio to calculate the value-in-use of their CGUs. The current year ratio was 8.33 (2016: 8.33).

Notes to the **financial statements** (continued)

FOR THE YEAR ENDED 30 JUNE 2017

			2017 Rm	2016 Rm
2	**INTANGIBLE ASSETS** *continued*			
2.2	**Value of in-force business acquired**			
	Acquisition of insurance and investment contracts with DPF			
	Cost		**6 782**	6 782
	Accumulated amortisation		**(2 255)**	(1 938)
	Carrying amount		**4 527**	4 844
	Carrying amount at beginning		**4 844**	5 168
	Amortisation charges		**(317)**	(324)
	Carrying amount at end		**4 527**	4 844
	The carrying amount is made up as follows:	**To be fully amortised by year:**		
	Sage – Momentum Retail	2046	**639**	672
	Momentum Namibia – International	2041	**216**	233
	Metropolitan/Momentum merger			
	Metropolitan Retail	2041	**2 819**	2 965
	Corporate and Public Sector	2041	**577**	607
	International	2041	**196**	269
	Guardrisk – Corporate and Public Sector	2034	**76**	89
	Other		**4**	9
			4 527	4 844

As a result of certain insurance contract acquisitions, the group carries an intangible asset representing the VIF acquired.

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 group earnings before tax.

			2017 Rm	2016 Rm
2.3	**Customer relationships**			
	Cost		**4 361**	4 353
	Accumulated amortisation		**(2 655)**	(2 287)
	Accumulated impairment		**(89)**	(5)
	Carrying amount		**1 617**	2 061
	Carrying amount at beginning		**2 061**	2 467
	Business combinations (refer to note 29)		**11**	18
	Amortisation charges		**(368)**	(424)
	Impairment charges		**(84)**	–
	Exchange differences		**(3)**	–
	Carrying amount at end		**1 617**	2 061
	The carrying amount is made up as follows:	**To be fully amortised by year:**		
	Metropolitan/Momentum merger			
	Employee benefits business – Corporate and Public Sector	2021	**506**	656
	Investment contracts – Corporate and Public Sector	2021	**520**	552
	Metropolitan Health Namibia Administrators – International	2019	**44**	53
	Guardrisk – Corporate and Public Sector	2024	**205**	235
	Providence – Corporate and Public Sector	2023	**67**	78
	CareCross – Corporate and Public Sector	2019	**147**	220
	Cannon – International	2020	**35**	133
	Other[1]		**93**	134
			1 617	2 061

[1] Included in Other is exchange rate differences of negative R3 million (2016: Rnil).

Customer relationships acquired represent the fair value of customer relationships in place immediately before a business combination took place. Other includes customer relationships relating to smaller acquisitions.

Using value in use calculations (discount rate of 18.2%; 2016: 19%), the customer relationships asset relating to the Cannon (International segment) acquisition was impaired by R63 million during the current year due to the company making losses. Customer relationships relating to the Momentum Financial Technology (International segment) acquisition were impaired by R20 million as the company is also making losses. There were no impairments in the prior year.

		2017 Rm	2016 Rm
2 INTANGIBLE ASSETS *continued*			
2.4 Brands			
Cost		**1 208**	1 208
Accumulated amortisation		**(384)**	(322)
Accumulated impairment		**(18)**	–
Carrying amount		**806**	886
Carrying amount at beginning		**886**	948
Amortisation charges		**(62)**	(62)
Impairment charges		**(18)**	–
Carrying amount at end		**806**	886
The carrying amount is made up as follows:	**To be fully amortised by year:**		
Metropolitan brand – Metropolitan Retail (Metropolitan/Momentum merger)	2031	**722**	776
Momentum Namibia brand – International	2027	**18**	20
Guardrisk brand – Corporate and Public Sector	2034	**66**	70
CareCross brand – Corporate and Public Sector		**–**	20
		806	886

The CareCross brand of R18 million (Corporate and Public Sector) was written off during the current year as it will no longer be used.

		2017 Rm	2016 Rm
2.5 Broker network			
Cost		**490**	490
Accumulated amortisation		**(209)**	(187)
Carrying amount		**281**	303
Carrying amount at beginning		**303**	337
Amortisation charges		**(22)**	(34)
Carrying amount at end		**281**	303
The carrying amount is made up as follows:	**To be fully amortised by year:**		
Guardrisk (non-life) – Corporate and Public Sector	2029	**213**	231
Guardrisk (life) – Corporate and Public Sector	2034	**68**	72
		281	303
2.6 Deferred acquisition costs on long-term investment business			
Carrying amount at beginning		**2 202**	2 092
Additions		**371**	347
Amortisation charges		**(372)**	(237)
Impairment charges		**(3)**	–
Exchange differences		**(2)**	–
Carrying amount at end		**2 196**	2 202
2.7 Deferred acquisition costs on short-term insurance business			
Carrying amount at beginning		**78**	61
Additions		**25**	69
Amortisation charges		**(15)**	(52)
Carrying amount at end		**88**	78

		2017 Rm	2016 Rm
2	**INTANGIBLE ASSETS** *continued*		
2.8	**Computer software**		
	Cost	**1 370**	1 212
	Accumulated amortisation	**(440)**	(292)
	Accumulated impairment	**(313)**	(98)
	Carrying amount	**617**	822
	Carrying amount at beginning	**822**	747
	Additions	**163**	278
	Amortisation charges	**(148)**	(149)
	Impairment charges	**(215)**	(54)
	Exchange differences	**(5)**	–
	Carrying amount at end	**617**	822

Internally developed software used by Metropolitan Retail (R76 million) was impaired due to a change in scope and operating model resulting in certain components no longer being used. Internally developed software used by International was impaired by R88 million (2016: R16 million) as the costs to maintain the systems are expected to exceed the economic benefits (using a discount rate of 11.6%). Internally developed software used by the Corporate and Public Sector segment was impaired in the prior year as the calculated value-in-use amount was lower than the carrying value.

Internally developed software

Included in computer software is a carrying value of R301 million (2016: R451 million) representing internally developed software.

Material computer software

The Momentum Retail segment has computer software of R88 million (2016: R85 million) relating to Momentum Short-term Insurance's line of business system which will be fully amortised by 2026. For impairment testing purposes, a cost of capital of 14% (2016: 14%) was used to present value the future economic benefits of the software. No impairment was required.

Guardrisk (Corporate and Public Sector) has computer software of R56 million (2016: R72 million) relating to cell captive and product administration systems which will be fully amortised by 2024. For valuation purposes a RDR of 12% (2016: 11%) and a growth rate of 8% (2016: 8%) was used. No impairment was required.

MMI Multiply (all segments) has computer software of R107 million relating to the wellness and rewards platform which will be fully amortised by 2026. For valuation purposes a RDR of 12% was used. MMI Multiply's computer software was not considered to be material in the 2016 financial year. No impairment was required.

ACC POLICY
Annex D5

3	OWNER-OCCUPIED PROPERTIES	2017 Rm	2016 Rm
	Owner-occupied properties – at fair value	**4 105**	3 112
	Historical carrying value – cost model	**3 053**	2 123
	Fair value at beginning	**3 112**	3 030
	Additions	**552**	33
	Disposals	**(8)**	(12)
	Revaluations	**144**	135
	Depreciation charges	**(77)**	(75)
	Impairment charges	**(28)**	(3)
	Transfer from investment properties	**416**	–
	Exchange differences	**(6)**	4
	Fair value at end	**4 105**	3 112

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

Owner-occupied properties are classified as level 3.

Critical accounting estimates and judgements
All properties are valued using a discounted cash flow (DCF) method or the income capitalisation approach based on the aggregate contractual or market-related rent receivable less associated costs. The DCF 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.

			Change in fair value	
Assumptions	Base assumption	Change in assumption	Decrease in assumption Rm	Increase in assumption Rm
Capitalisation rate	**9.0% – 10.0%**	**10%**	**126**	**(103)**
Discount rate	**14.0% – 15.0%**	**10%**	**82**	**(108)**

Capitalisation and discount rates (2016: 9.0% – 10.0% and 14.0% – 15.0% 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 group. Their valuators hold recognised and relevant professional qualifications and have recent experience in the location and category of the owner-occupied property being valued.

ACC POLICY
Annex D6

		2017 Rm	2016 Rm
4	**INVESTMENT PROPERTIES**		
	At 30 June, investment properties comprised the following property types:		
	Industrial	**440**	296
	Shopping malls	**3 710**	3 604
	Office buildings	**1 601**	2 464
	Hotels	**250**	244
	Vacant land	**642**	519
	Other	**945**	524
	Property at valuation	**7 588**	7 651
	Accelerated rental income (refer to note 6.5)	**(248)**	(229)
		7 340	7 422
	Investment properties under development		
	Fair value at beginning	**763**	–
	Capitalised development expenditure	**262**	305
	Transfer to owner-occupied properties	**(334)**	–
	Transfer from completed properties for redevelopment	**–**	458
	Fair value at end	**691**	763
	Completed properties		
	Fair value at beginning	**6 659**	7 212
	Capitalised subsequent expenditure	**67**	209
	Additions	**145**	161
	Disposals	**(326)**	(307)
	Revaluations	**230**	354
	Change in accelerated rental income	**(24)**	(48)
	Sale of subsidiaries	**–**	(19)
	Transfer to owner-occupied properties	**(82)**	–
	Transfer to investment properties under development for redevelopment	**–**	(458)
	Transfer to non-current assets held for sale[1]	**–**	(470)
	Exchange differences	**(20)**	25
	Fair value at end	**6 649**	6 659

[1] This is related to an investment property held by MMIGL. The property was transferred in the prior year due to the planned disposal thereof in the current year.

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

Investment properties and non-current assets held for sale are classified as level 3.

Critical accounting estimates and judgements

All properties were internally or externally valued using a DCF method based on contractual or market-related rent receivable. External valuations were obtained for certain properties as at 30 June 2017, amounting to 21% (2016: 43%) of the portfolio for the group. Eris is responsible for the majority of the internal valuations of the group. Their valuators hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued.

			Change in fair value	
Assumptions	Base assumption	Change in assumption	Decrease in assumption Rm	Increase in assumption Rm
Capitalisation rate	**9.0% – 10.0%**	**10%**	**414**	**(790)**
Discount rate	**13.0% – 15.0%**	**10%**	**184**	**(816)**

Capitalisation and discount rates (2016: 9.0% – 10.0% and 13.0% – 15.0% respectively) are determined using the Investment Property Databank South Africa rates. For valuation purposes, existing lease agreements and subsequent expected rentals are used to determine the fair value of each building.

	ACC POLICY Annex D2.2 and 2.3	2017 Rm	2016 Rm
5	**INVESTMENTS IN ASSOCIATES AND JOINT VENTURES**		
	Carrying amount at beginning	**680**	145
	Additions	**94**	530
	Disposals	**(37)**	(13)
	Share of (loss)/profit	**(126)**	18
	Dividends paid	**(16)**	–
	Carrying amount at end – non-current	**595**	680

2017 **Equity-accounted associates and joint ventures***	**%****	**Carrying value Rm**	**Assets# Rm**	**Liabilities# Rm**	**Revenue# Rm**	**Earnings** Rm**
Associates						
Aditya Birla Health Insurance Ltd (ABHIL)	**49%**	**353**	**329**	**(173)**	**14**	**(105)**
Aluwani Capital Partners (Pty) Ltd (Aluwani)	**40%**	**42**	**26**	**(31)**	**90**	**(4)**
Eris Property Fund Carry Vehicle (Pty) Ltd (EPF CV)	**27%**	**38**	**707**	**(547)**	**60**	**14**
Kagiso Empowerment Infrastructure Fund (KEIF)	**15%**	**78**	**509**	**(4)**	**(50)**	**(10)**
Other		**61**	*****	*****	*****	**(7)**
		572				**(112)**
Joint venture						
aYo Holdings Ltd (aYo)	**50%**	**23**	**125**	**1**	**–**	**(14)**
		23				**(14)**
2016						
Associates						
Aditya Birla Health Insurance Ltd (ABHIL)	49%	446	528	(25)	2	–
Aluwani Capital Partners (Pty) Ltd (Aluwani)	40%	46	34	(31)	68	1
Eris Property Fund Carry Vehicle (Pty) Ltd (EPF CV)	27%	23	647	(534)	68	4
Kagiso Empowerment Infrastructure Fund (KEIF)	15%	88	576	(3)	41	4
Other		77	***	***	***	9
		680				18

* All entities' principal place of business is in South Africa unless otherwise stated.
** Effective group percentage held.
*** This amount consist of various associates' financial information.
\# This represents the actual assets, liabilities and revenue of the associate at the end of the financial year.

- ABHIL is a health insurance business and was formed by MMISI and Aditya Birla Financial Services Ltd (incorporated in India). The carrying amount of the associate includes funding advanced to the company in addition to the capital acquired. The total assets consist of R67 million current assets and R262 million non-current assets. The total liabilities consist of R128 million current liabilities and R45 million non-current liabilities. The principal place of business is in India.
- Aluwani is an asset management services company that is 40% held by MMISI in the Corporate and Public Sector segment. Aluwani was derecognised as a subsidiary and recognised as an associate during the prior year. The carrying amount includes a gain of R45 million which represents the excess of the fair value of Aluwani over the carrying amount on date of recognition.
- EPF CV (Corporate and Public Sector segment) owns 100% of the ordinary shares in Eris Property Fund (Pty) Ltd (EPF). The group also owns 31.67% of the preference shares in EPF (refer to note 6.4). The preference shares have a term of five years and the dividend rate is the risk-free rate plus 0.5%.
- KEIF relates to an associate held by a consolidated collective investment scheme. Management has assessed the level of influence that the group has on KEIF and determined that it has significant influence even though the shareholding is below 20%.
- aYo is a joint venture between MMISI and MTN (Dubai). aYo is a micro insurer for the African market. The joint venture is incorporated in Mauritius.

ACC POLICY
Annex D7 and 9

6 FINANCIAL ASSETS

The group classifies its financial assets into the following categories:

- Financial assets at fair value through income, including derivative financial assets
- Loans and receivables
- Available-for-sale financial assets
- Held-to-maturity 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.

		2017 Rm	2016 Rm
	The group's financial assets are summarised below:		
6.1	Financial assets designated at fair value through income	369 205	373 630
6.2	Investments in associates designated at fair value through income	15 039	10 499
6.3	Derivative financial assets	2 439	1 977
	Available-for-sale financial assets	18	125
6.4	Loans and receivables (excluding prepayments)	7 077	7 390
6.5	Insurance and other receivables (excluding accelerated rental income)	4 373	4 268
6.6	Cash and cash equivalents	27 353	29 148
	Held-to-maturity financial assets	397	122
	Total financial assets	425 901	427 159
6.1	**Financial assets designated at fair value through income**		
	Equity securities	101 290	107 874
	Debt securities	99 645	111 397
	Funds on deposit and other money market instruments	26 616	18 697
	Unit-linked investments	141 654	135 662
		369 205	373 630
	Open-ended	243 960	244 367
	Current	43 720	44 926
	Non-current	81 525	84 337
	1 to 5 years	31 766	32 013
	5 to 10 years	14 982	15 273
	> 10 years	34 777	37 051
		369 205	373 630

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.

A schedule of equity securities is available for inspection at the company's registered office.

		2017 Rm	2016 Rm
6.2	**Investments in associates designated at fair value through income**		
	Collective investment schemes (refer to Annexure B)	15 039	10 499

	2017 Assets Rm	2017 Liabilities Rm	2016 Assets Rm	2016 Liabilities Rm
6 FINANCIAL ASSETS *continued*				
6.3 Derivative financial instruments				
Held for trading	**2 439**	**1 827**	1 977	2 097
Current	**333**	**123**	464	174
Non-current	**2 106**	**1 704**	1 513	1 923
	2 439	**1 827**	1 977	2 097

As part of its asset and liability management, the group 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. 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.

Notes to the **financial statements** (continued)

FOR THE YEAR ENDED 30 JUNE 2017

	2017 Effective exposure Rm	2017 Assets Rm	2017 Liabilities Rm	2016 Effective exposure Rm	2016 Assets Rm	2016 Liabilities Rm
6 FINANCIAL ASSETS *continued*						
6.3 Derivative financial instruments *continued*						
Derivatives held for trading						
Equity derivatives		92	64		187	113
Options, OTC	–	–	–	–	2	4
Options, exchange traded	(265)	49	–	(871)	68	16
Futures, exchange traded	407	38	45	1 468	113	88
Swaps, OTC	(13)	5	19	(1)	4	5
Interest rate derivatives		2 335	925		1 749	875
Options, OTC	(210)	14	–	(253)	16	–
Swaps, OTC	1 403	2 321	925	872	1 733	875
Bonds		1	37		10	11
Options, exchange traded	58	–	–	22	–	7
Futures, OTC	1 974	1	36	615	8	1
Futures, exchange traded	1 326	–	1	1 274	2	3
Credit derivatives		6	2		5	5
Swaps, OTC	4	6	2	(1)	5	5
Currency derivatives		5	799		26	1 093
Futures, OTC	366	5	4	1 000	26	45
Futures, exchange traded	(134)	–	–	(767)	–	–
Swaps, OTC	(795)	–	795	(1 048)	–	1 048
Total derivative financial instruments		**2 439**	**1 827**		1 977	2 097

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 group.

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

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

Offsetting

The following financial instruments are subject to offsetting, enforceable master netting arrangements and similar agreements:

	2017 Rm	2016 Rm
Derivative financial assets		
Gross and net amounts of recognised financial assets[1]	2 439	1 977
Related amounts not set off in the statement of financial position		
Financial instruments	(689)	(680)
Net amount	1 750	1 297
Derivative financial liabilities		
Gross and net amounts of recognised financial liabilities[1]	1 827	2 097
Related amounts not set off in the statement of financial position		
Financial instruments	(639)	(680)
Net amount	1 188	1 417

[1] No offsetting in current and prior year.

	2017 Rm	2016 Rm
6 FINANCIAL ASSETS *continued*		
6.4 Loans and receivables		
Accounts receivable (excluding prepayments)	**3 747**	3 937
Unsettled trades	**557**	896
Loans	**2 773**	2 557
Related party loans		
Staff loans	**76**	76
Loans due from associates	**93**	85
Preference shares	**111**	97
Empowerment partners	**271**	293
Other related party loans	**156**	146
Less: provision for impairment on related party loans	**(37)**	–
Other loans		
Due from agents, brokers and intermediaries	**424**	417
Less: provision for impairment	**(147)**	(150)
Policy loans	**1 469**	1 474
Other	**357**	119
Total included in financial assets	**7 077**	7 390
Prepayments	**216**	225
Total loans and receivables	**7 293**	7 615
Current	**6 852**	6 794
Non-current	**441**	821
	7 293	7 615
Reconciliation of aggregated provision accounts		
Balance at beginning	**150**	239
Additional provision	**67**	22
Utilised/reversed during year	**(66)**	(111)
Other	**33**	–
Balance at end	**184**	150

Terms and conditions of material loans

- The R271 million (2016: R285 million) loan to empowerment partners relates to A3 preference shares acquired on 2 December 2011 in Off the Shelf Investments 108 (Pty) Ltd (a KTH subsidiary) for R316 million. Given the financial substance of the KTH subsidiary and the commercial terms attached to the funding arrangement, there is sufficient security in the company that the group does not carry and has not carried the risks and rewards of the shares that are funded by the loan. The loan is therefore not accounted for as an option under IFRS 2 – Share-based payments, and is recognised as a receivable carried at amortised cost. Interest is charged at 88% of the prime interest rate of South Africa and the preference shares have a repayment date of 29 December 2017 (after extending it under the same terms by six months in the current year).
- Policy loans are limited to and secured by the underlying value of the unpaid policy benefits. These loans attract interest at rates greater than the current prime rate but limited to 11% (2016: 13%) 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.

		2017 Rm	2016 Rm
6	**FINANCIAL ASSETS** *continued*		
6.5	**Insurance and other receivables**		
	Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**4 292**	4 243
	Insurance contract holders	**2 302**	2 499
	Investment contract holders with DPF	**225**	188
	Cell captives	**1 119**	930
	Less: provision for impairment	**(74)**	(53)
	Due from reinsurers	**720**	679
	Other	**81**	25
	Total included in financial assets	**4 373**	4 268
	Accelerated rental income (refer to note 4)	**248**	229
	Total insurance and other receivables	**4 621**	4 497
	Current	**4 368**	4 355
	Non-current	**253**	142
		4 621	4 497
	Impairment of receivables arising from insurance contracts and investment contracts with DPF		
	Impairment is mainly due to expected payment defaults.		
6.6	**Cash and cash equivalents**		
	Bank and other cash balances	**11 414**	9 809
	Funds on deposit and other money market instruments – maturity < 90 days	**15 939**	19 339
		27 353	29 148

6 FINANCIAL ASSETS *continued*

6.7 Credit risk

Refer to note 41 for detail on the credit risk management.

	2017 Rm	2016 Rm
Credit risk exposure		
The group's maximum exposure to credit risk is through the following classes of assets, and is equal to their carrying values:		
Designated at fair value through income		
Debt securities	99 645	111 397
Stock and loans to government and other public bodies	44 325	46 889
Other debt instruments	55 320	64 508
Funds on deposit and other money market instruments	26 616	18 697
Unit-linked investments (categorised as interest-bearing and money market – refer to Annexure B)	24 675	22 070
Collective investment schemes	22 492	20 175
Other unit-linked investments	2 183	1 895
Derivative financial assets – Held for trading	2 439	1 977
Held-to-maturity	397	122
Loans and receivables	7 077	7 390
Accounts receivable	3 747	3 937
Unsettled trades	557	896
Loans	2 773	2 557
Other receivables		
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	4 292	4 243
Cash and cash equivalents	27 353	29 148
Total assets bearing credit risk	**192 494**	**195 044**

Credit quality

The assets in the group's maximum exposure table above are analysed in the table on the following page, 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 Moody's, S&P and GCR. Refer to Annexure C for the definitions used in this section.

6 **FINANCIAL ASSETS** *continued*

6.7 **Credit risk** *continued*

Credit quality *continued*

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[1]	31 484	7 992	4 284	115	110	–	340	44 325
Debt securities – other debt instruments	9 402	17 855	22 272	1 683	2 068	38	2 002	55 320
Cash and cash equivalents and funds on deposit	3 255	12 902	31 325	2 745	2 060	32	1 650	53 969
Derivative financial instruments	499	167	1 715	–	–	–	58	2 439
Held-to-maturity	36	–	–	–	–	–	361	397
Other unrated instruments								
Loans and other receivables	–	–	–	–	–	–	6 984	6 984
Other receivables	–	–	–	–	–	–	4 217	4 217
Unit-linked investments[2]	–	–	–	–	–	–	24 675	24 675
Past due or impaired assets	–	–	–	–	–	–	168	168
	44 676	38 916	59 596	4 543	4 238	70	40 455	192 494
2016								
Debt securities – stock and loans to government and other public bodies	36 188	9 042	1 217	112	–	–	330	46 889
Debt securities – other debt instruments	9 961	34 791	12 613	2 470	1 929	459	2 285	64 508
Cash and cash equivalents and funds on deposit	1 037	38 624	3 841	2 656	2	68	1 617	47 845
Derivative financial instruments	288	1 494	125	–	–	–	70	1 977
Held-to-maturity	78	–	–	–	–	–	44	122
Other unrated instruments								
Loans and other receivables	–	–	–	–	–	–	7 185	7 185
Other receivables	–	–	–	–	–	–	4 243	4 243
Unit-linked investments[2]	–	–	–	–	–	–	22 070	22 070
Past due or impaired assets	–	–	–	–	–	–	205	205
	47 552	83 951	17 796	5 238	1 931	527	38 049	195 044

[1] S&P Global Rating revised the South African mapping guidelines for their national and regional credit rating scales corresponding to the global rating scale, effective 27 July 2017. As at 30 June 2017, the published national scale credit ratings had not reflected the recalibration and as a result still reflected the lower national scale rating of AA for RSA government and other related institutions. The recalibrated national rating for RSA government and other related institutions was AAA on the effective date. The table above reflects the newly calibrated national rating.

[2] Refer to Annexure B for detail on unit-linked investments and note 41 for credit risk management relating to unit-linked investments.

6 FINANCIAL ASSETS *continued*

6.7 Credit risk *continued*

Credit quality *continued*

Credit quality of reinsurers

The table below represents the reinsured portion of all the businesses with whom the group has reinsured of R720 million (2016: R679 million) (included in note 6.5) 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	**32%**	**AA**	22%	AA
General Cologne Re	**27%**	**AA**	17%	AA
Hannover Re	**5%**	**AA**	4%	AA
RGA Re	**8%**	**AA**	5%	AA
Munich Re	**26%**	**AA**	16%	AA
Other	**2%**	**A**	36%	A
	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)	**152**	**6**	**18**	**1**	**177**
Accounts receivable	**1 998**	**317**	**99**	**–**	**2 414**
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**536**	**101**	**87**	**13**	**737**
	2 686	**424**	**204**	**14**	**3 328**
2016					
Loans and receivables					
Loans (including amounts due from agents, brokers and intermediaries)	82	64	44	21	211
Accounts receivable	1 895	502	116	–	2 513
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	482	164	5	19	670
	2 459	730	165	40	3 394

Financial assets designated at fair value through income

Certain instruments in the group's statement of financial position, listed per class in the table below, that would have otherwise been classified as loans and receivables under IAS 39, have been designated at fair value through income.

	Carrying value	
	2017 Rm	2016 Rm
Debt securities	**70 157**	72 751
Funds on deposit and other money market instruments	**24 869**	14 822
	95 026	87 573

6 FINANCIAL ASSETS *continued*

6.8 Financial assets hierarchy

Refer to Annexure E for the valuation techniques relating to this note.

The following table provides an analysis of the assets at fair value into the various levels:

2017	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Securities designated at fair value through income	255 266	109 260	4 679	369 205
Equity securities				
Local listed	80 614	96	14	80 724
Foreign listed	19 322	1 013	87	20 422
Unlisted	–	4	140	144
Debt securities				
Stock and loans to government and other public bodies				
Local listed	28 399	9 817	–	38 216
Foreign listed	844	1 800	26	2 670
Unlisted	–	3 363	76	3 439
Other debt instruments				
Local listed	22	25 237	15	25 274
Foreign listed	11	401	81	493
Unlisted	–	28 106	1 447	29 553
Funds on deposit and other money market instruments	–	26 616	–	26 616
Unit-linked investments				
Collective investment schemes[1]				
Local unlisted or listed quoted	85 031	309	3	85 343
Foreign unlisted or listed quoted	38 433	57	17	38 507
Foreign unlisted unquoted	–	456	521	977
Other unit-linked investments				
Local unlisted or listed quoted	726	7 417	1	8 144
Local unlisted unquoted	1 820	4 538	2 190	8 548
Foreign unlisted unquoted	–	–	61	61
Foreign unlisted or listed quoted	44	30	–	74
Investments in associates designated at fair value through income[1]	15 039	–	–	15 039
Derivative financial instruments – Held for trading	36	2 399	4	2 439
Available-for-sale	18	–	–	18
	270 359	111 659	4 683	386 701

[1] Collective investment schemes and Investments in associates designated at fair value through income are classified as level 1 when there is an active market of transactions between investors and collective investment schemes based on a published price.

[2] There were no significant transfers between level 1 and level 2 assets in the current year.

2016	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
6 FINANCIAL ASSETS *continued*				
6.8 Financial assets hierarchy *continued*				
Securities designated at fair value through income	258 571	109 983	5 076	373 630
Equity securities				
Local listed	84 750	261	–	85 011
Foreign listed	21 633	953	34	22 620
Unlisted	–	24	219	243
Debt securities				
Stock and loans to government and other public bodies				
Local listed	31 696	9 727	–	41 423
Foreign listed	904	1 410	24	2 338
Unlisted	–	3 064	64	3 128
Other debt instruments				
Local listed	350	25 058	5	25 413
Foreign listed	17	660	–	677
Unlisted	–	36 547	1 871	38 418
Funds on deposit and other money market instruments	–	18 697	–	18 697
Unit-linked investments				
Collective investment schemes[1]				
Local unlisted or listed quoted	83 623	1 380	–	85 003
Foreign unlisted or listed quoted	35 402	112	27	35 541
Foreign unlisted unquoted	–	504	571	1 075
Other unit-linked investments				
Local unlisted or listed quoted	196	7 408	2	7 606
Local unlisted unquoted	–	4 178	2 243	6 421
Foreign unlisted unquoted	–	–	16	16
Investments in associates designated at fair value through income[1]	10 483	16	–	10 499
Derivative financial instruments – Held for trading	115	1 862	–	1 977
Available-for-sale	113	12	–	125
	269 282	111 873	5 076	386 231

[1] Collective investment schemes and Investments in associates designated at fair value through income are classified as level 1 when there is an active market of transactions between investors and collective investment schemes based on a published price. As a result, certain foreign unlisted or listed quoted instruments were transferred to level 1.

[2] African Bank was relaunched on 4 April 2016 and business from that date has been booked through the new legal entity. The previous instruments (level 3) were replaced with new instruments (level 2) during April 2016. The timing of the transfers are deemed to have occurred at the end of the period.

6 **FINANCIAL ASSETS** *continued*

6.8 **Financial assets hierarchy** *continued*

The following table provides a reconciliation of the fair value of the level 3 financial assets:

	Designated at fair value through income				Available-for-sale	Held for trading	
				Investments in associates			
2017	**Equity securities Rm**	**Debt securities Rm**	**Unit-linked investments Rm**	**Unit-linked investments Rm**	**Equity securities Rm**	**Derivative financial instruments Rm**	**Total Rm**
Opening balance	**253**	**1 964**	**2 859**	**–**	**–**	**–**	**5 076**
Total (losses)/gains in net realised and fair value gains in the income statement							
Realised gains/(losses)	**12**	**(16)**	**540**	**–**	**–**	**–**	**536**
Unrealised (losses)/gains	**(90)**	**33**	**(22)**	**–**	**–**	**2**	**(77)**
Accrued interest in investment income in the income statement	**–**	**100**	**–**	**–**	**–**	**–**	**100**
Purchases	**107**	**1 571**	**4 186**	**–**	**–**	**2**	**5 866**
Sales	**(134)**	**(1 512)**	**(4 770)**	**–**	**–**	**–**	**(6 416)**
Settlements	**–**	**(625)**	**–**	**–**	**–**	**–**	**(625)**
Transfers into level 3	**93**	**130**	**–**	**–**	**–**	**–**	**223**
Closing balance	**241**	**1 645**	**2 793**	**–**	**–**	**4**	**4 683**
2016							
Opening balance	231	3 798	2 533	82	4	–	6 648
Total gains/(losses) in net realised and fair value gains in the income statement							
Realised (losses)/gains	(17)	32	2	–	–	–	17
Unrealised gains/(losses)	22	211	458	(5)	–	–	686
Accrued interest in investment income in the income statement	–	90	–	–	–	–	90
Purchases	76	696	301	–	–	–	1 073
Sales	(88)	(860)	(270)	–	(4)	–	(1 222)
Settlements	–	(612)	(42)	–	–	–	(654)
Transfers into level 3[1]	36	5	2	–	–	–	43
Transfers out of level 3	(7)	(1 396)	(125)	(77)	–	–	(1 605)
Closing balance	253	1 964	2 859	–	–	–	5 076

[1] The group's holdings in the various debt and equity instruments of ABIL, and its various subsidiaries, were transferred from levels 1 and 2 to level 3 on 1 January 2015, subsequent to the placing into curatorship of the African Bank Group and the suspension of these securities by the JSE. In the prior year, these instruments were transferred out of level 3, effective 1 July 2015. African Bank was relaunched on 4 April 2016 and business from that date has been booked through the new legal entity. The previous instruments (level 3) were replaced with new instruments (level 2) during April 2016.

The amount of total gains and losses for the year included in net realised and fair value gains in the income statement for assets held at the end of the year is R85 million (2016: R682 million) for the group.

6 **FINANCIAL ASSETS** *continued*

6.8 **Financial assets hierarchy** *continued*

Sensitivity of level 3 financial assets measured at fair value to changes in key assumptions:

	Designated at fair value through income			Investments in associates	Available-for-sale	Held for trading	
2017	**Equity securities Rm**	**Debt securities Rm**	**Unit-linked investments Rm**	**Unit-linked investments Rm**	**Equity securities Rm**	**Derivative financial instruments Rm**	**Total Rm**
Carrying value	**241**	**1 645**	**2 793**	**–**	**–**	**4**	**4 683**
Assumption change	**10% increase/ (decrease) in markets**	**1% increase/ (decrease) in interest rates**	**10% increase/ (decrease) in unit price**	**N/A**	**N/A**	**1% increase/ (decrease) in interest rates**	
Effect of increase in assumption	**24**	**31**	**279**	**N/A**	**N/A**	**(1)**	
Effect of decrease in assumption	**(24)**	**(26)**	**(279)**	**N/A**	**N/A**	**1**	
2016							
Carrying value	253	1 964	2 859	–	–	–	5 076
Assumption change	10% increase/ (decrease) in markets	1% increase/ (decrease) in interest rates	10% increase/ (decrease) in unit price	Not sensitive	Not sensitive	–	
Effect of increase in assumption	25	25	286	N/A	N/A	–	
Effect of decrease in assumption	(25)	(21)	(286)	N/A	N/A	–	

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 Carrying value Rm	2017 Fair value Rm	2016 Carrying value Rm	2016 Fair value Rm
Held-to-maturity financial assets	**397**	**397**	122	122
Loans and receivables	**7 077**	**7 076**	7 390	7 416
Loans	**2 773**	**2 772**	2 557	2 583
Accounts receivable	**3 747**	**3 747**	3 937	3 937
Unsettled trades	**557**	**557**	896	896
Insurance and other receivables	**4 373**	**4 373**	4 268	4 268
Cash and cash equivalents	**27 353**	**27 353**	29 148	29 148
	39 200	**39 199**	40 928	40 954

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 fair value of the loan to empowerment partners of R271 million (2016: R293 million) equals the carrying value as it is expected to be repaid by 29 December 2017. For 2016, the expected cash flows were discounted at 12%.
- For policy loans, the fair value of R1 498 million (2016: R1 287 million) is the discounted amount of the estimated future cash flows to be received, based on monthly repayments of between 15 and 30 months. The expected cash flows are discounted using a rate of 9.4% (2016: 9.2%).
- For the remainder of the loans, the carrying value approximates fair value due to their short-term nature.

ACC POLICY
Annex D10

		2017 Rm	2016 Rm
7	**REINSURANCE CONTRACT ASSETS**		
	Reinsurance asset relating to long-term insurance	**1 940**	1 558
	Reinsurance asset relating to cell captive business	**1 880**	2 933
	Prepaid reinsurance	**675**	601
		4 495	5 092
	Balance at beginning	**5 092**	3 046
	Movement charged to income statement	**278**	331
	Attributable to non-cell captive business	**206**	433
	Attributable to cell captive business	**72**	(102)
	Cell captive premiums	**13**	19
	First-party cell captives	**(1 153)**	1 475
	Third-party cell captives	**270**	218
	Exchange differences	**(22)**	5
	Other	**17**	(2)
	Balance at end	**4 495**	5 092
	Current	**3 531**	4 761
	Non-current	**964**	331
		4 495	5 092

Refer to note 10 for relevant assumptions and estimates applied in valuation of the reinsurance assets.

Amounts due from reinsurers in respect of claims incurred by the group on contracts that are reinsured are included in insurance and other receivables. Refer to note 6.5.

	ACC POLICY Annex D10	2017 Rm	2016 Rm
8	**INSURANCE CONTRACTS**		
8.1	**Long-term insurance contracts**		
8.1.1	***Long-term insurance contract liabilities***	**104 962**	106 085
8.1.2	***Liabilities to third-party cell captive owners***	**1 605**	1 008
		106 567	107 093
	Open-ended	**17 981**	18 349
	Current	**11 459**	11 144
	Non-current	**77 127**	77 600
		106 567	107 093
	Movement in long-term insurance contracts		
8.1.1	***Long-term insurance contract liabilities***		
	Balance at beginning	**106 085**	104 038
	Transfer to policyholder liabilities under insurance contracts	**(645)**	1 626
	(Decrease)/Increase in retrospective liabilities	**(224)**	3 113
	Unwind of discount rate	**3 686**	3 054
	Expected release of margins	**(3 157)**	(2 885)
	Expected cash flows	**(4 438)**	(4 933)
	Change in economic assumptions	**–**	10
	Change in non-economic assumptions	**430**	429
	New business	**3 159**	3 362
	Experience variances	**(35)**	(524)
	Other	**(66)**	–
	Net exchange differences	**(238)**	264
	Other	**(240)**	157
	Balance at end	**104 962**	106 085
8.1.2	***Liabilities to third-party cell captive owners***		
	Balance at beginning	**1 008**	708
	Charge to the income statement	**(792)**	(1 272)
	Net cash flows	**4 233**	3 765
	Changes in share capital, dividends and other items relating to cell captives[1]	**(2 844)**	(2 193)
	Balance at end	**1 605**	1 008

[1] Relates mainly to cell captive expenses like binder fees, administration fees and commission as well as dividends paid to cell owners.

Notes to the **financial statements** (continued)

FOR THE YEAR ENDED 30 JUNE 2017

		2017 Rm	2016 Rm
8	**INSURANCE CONTRACTS** *continued*		
8.2	**Short-term insurance contracts**		
8.2.1	***Unearned premium provision***	**3 737**	3 431
8.2.2	***Outstanding claims***	**1 844**	1 887
8.2.3	***Liabilities to third-party cell captive owners***	**2 080**	1 660
	Total	**7 661**	6 978
	Open-ended	**1 886**	1 419
	Current	**5 695**	5 552
	Non-current	**80**	7
		7 661	6 978
	Movement in short-term insurance contracts		
8.2.1	***Unearned premium provision***		
	Balance at beginning	**3 431**	3 168
	Movement in unearned premium provision		
	Premium income received	**3 186**	2 537
	Recognition of premium income	**(2 859)**	(2 301)
	Exchange differences	**(21)**	27
	Balance at end	**3 737**	3 431
8.2.2	***Outstanding claims***		
	Balance at beginning	**1 887**	1 548
	Increase in outstanding claims	**30**	283
	Exchange differences	**(73)**	56
	Balance at end	**1 844**	1 887
8.2.3	***Liabilities to third-party cell captive owners***		
	Balance at beginning	**1 660**	1 837
	Charge to the income statement	**(86)**	(71)
	Cell tax	**(288)**	(251)
	Net fair value gains on assets at fair value through income	**202**	180
	Cell captive income	**327**	250
	Net cash flows	**948**	360
	Dividends paid	**(733)**	(766)
	Exchange differences	**(36)**	50
	Balance at end	**2 080**	1 660

Refer to note 10 for the assumptions and estimates used.

ACC POLICY Annex D10		2017 Rm	2016 Rm
9	**INVESTMENT CONTRACTS**		
9.1	**Investment contracts with DPF**	**24 338**	25 195
9.2	**Investment contracts designated at fair value through income**	**233 434**	232 790
9.2.1	***Investment contract liabilities designated at fair value through income***	**224 801**	222 419
9.2.2	***Liabilities to first-party cell captive owners***	**8 633**	10 371
	Total investment contract liability	**257 772**	257 985
	Movement in investment contracts with DPF		
9.1	**Investment contracts with DPF**		
	Balance at beginning	**25 195**	26 134
	Transfer to policyholder liabilities under investment contracts with DPF	**(855)**	(940)
	Decrease in retrospective liabilities	**(1 152)**	(1 548)
	Unwind of discount rate	**(3)**	(7)
	Expected release of margins	**(181)**	(256)
	Expected cash flows	**(114)**	(509)
	Change in economic assumptions	**(5)**	–
	Change in non-economic assumptions	**(36)**	69
	New business	**644**	1 294
	Experience variances	**(8)**	17
	Exchange differences	**(2)**	1
	Balance at end	**24 338**	25 195
	Open-ended	**19 308**	19 648
	Current	**749**	738
	Non-current	**4 281**	4 809
		24 338	25 195
	Movement in investment contracts designated at fair value through income		
9.2	**Investment contracts designated at fair value through income**		
9.2.1	***Investment contract liabilities designated at fair value through income***		
	Balance at beginning	**222 419**	212 072
	Sale of business	**(1 359)**	–
	Contract holder movements	**3 873**	10 132
	Deposits received	**32 516**	32 975
	Contract benefit payments	**(32 794)**	(36 539)
	Fees on investment contracts	**(2 281)**	(2 285)
	Fair value adjustment to policyholder liabilities under investment contracts	**6 405**	15 794
	Changes in share capital, dividends and other items relating to cell captives	**27**	187
	Exchange differences	**(132)**	215
	Balance at end	**224 801**	222 419
9.2.2	***Liabilities to first-party cell captive owners***		
	Balance at beginning	**10 371**	8 284
	Contract holder movements	**(1 376)**	1 981
	Deposits received	**1 300**	1 215
	Contract benefit payments	**(1 646)**	(898)
	Fees on investment contracts	**(99)**	(103)
	Fair value adjustment to policyholder liabilities under investment contracts	**245**	411
	Cell captive income/(expenses)	**450**	(320)
	Changes in share capital, dividends and other items relating to cell captives	**(1 626)**	1 676
	Exchange differences	**(362)**	106
	Balance at end	**8 633**	10 371
	Open-ended	**121 652**	119 509
	Current	**4 639**	4 540
	Non-current	**107 143**	108 741
		233 434	232 790

The instruments in note 9.2 would have been classified as payables under IAS 39 had they not been designated at fair value through income.

For the IFRS 7 disclosures relating to investment contracts, refer to note 11.4.

Refer to note 10 for the assumptions and estimates used.

10 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES

The actuarial value of policyholder liabilities arising from long-term insurance contracts is determined using the FSV method as described in the actuarial guidance note SAP 104 of the ASSA – Calculation of the value of the assets, liabilities and capital adequacy requirement of long-term insurers. The valuation of contract holder liabilities is a function of methodology and assumptions. The methodology is described in the accounting policies in Annexure D para 10.

The assumptions are set as follows:

- The best estimate for a particular assumption is determined.
- Prescribed margins are then applied, as required by SAP 104.
- Discretionary margins are applied where the prescribed compulsory margins are deemed insufficient in a particular case in relation to prevailing uncertainty or for the prudent release of profit.

The liabilities at 30 June 2017 would have been R12 407 million (2016: R12 702 million) lower for the group without the discretionary margins. This impact is shown gross of transfer tax.

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.
- Home service business: Mortality assumptions are based on internal investigations into mortality experience, with the most recent investigation being for the period 2011 to 2016 for Metropolitan Retail business.
- 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 group's own experience.
- For individual Permanent Health Insurance business, 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 group'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 March 2017 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.

10 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES *continued*

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 predefined 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 (three 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 business within the Momentum Retail segment to reflect the impact of the run-off of the closed books.
- The main best-estimate investment assumptions, gross of tax, used in the valuation are:

	2017	2016
RDR	**11.7%**	11.4%
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 rate	**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.

10 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES *continued*

Investment guarantees (APN 110)

- Market-consistent stochastic models were calibrated using market data as at 30 June 2017. The value of the investment guarantee liabilities was calculated as at this date.
- APN 110 prescribes specific disclosure in respect of the market-consistent stochastic models that were used to calculate the liabilities. The disclosure is set out below.

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
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**
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 Price (% of nominal)	2017 Volatility	2016 Price (% of nominal)	2016 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 $(1.04)^{10}$ 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 price equal to the present 5-year forward rate at maturity of the put, which pays out if the 5-year interest 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 becoming 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.

10 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES *continued*

Basis and other changes

Assumptions and methodologies used in the FSV 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. An exception to this is impact of changes in the valuation discount rate, consequent changes in the assumed level of renewal expense inflation or bonuses and investment over or underperformance in respect of non-linked business, which is transferred to investment stabilisation liabilities.

- Basis and other changes decreased the excess of assets over liabilities at 30 June 2017 by R395 million (2016: R482 million) for the group. The major contributors to this change were as follows:
  - Actuarial methodology and other changes – positive R14 million (2016: negative R240 million).
  - Experience basis changes – negative R401 million (2016: negative R195 million). The experience basis changes are in respect of withdrawal, expense and mortality assumptions.
  - Economic assumption changes – negative R8 million (2016: negative R46 million). The economic assumption changes are in respect of future investment returns, bonus and inflation assumptions as well as the difference between actual and expected investment returns on non-profit business.

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)	**58 538**	**57 419**	**57 609**	**58 978**	**56 325**	**59 274**
Annuities (retail and employee benefits)	**41 694**	**41 536**	**41 560**	**41 692**	**42 142**	**43 581**
Employee benefits business (excluding annuities)	**3 995**	**3 995**	**3 995**	**3 995**	**3 995**	**4 013**
Investment with DPF business	**24 275**	**24 249**	**24 252**	**24 261**	**24 247**	**24 473**
Investment business	**224 224**	**224 165**	**224 179**	**224 194**	**224 156**	**226 212**
Subtotal	**352 726**	**351 364**	**351 595**	**353 120**	**350 865**	**357 553**
Cell captive and short-term business	**19 288**					
Total	**372 014**	**351 364**	**351 595**	**353 120**	**350 865**	**357 553**
2016						
Insurance business						
Retail insurance business (excluding annuities)	61 310	60 185	60 527	61 599	59 278	61 629
Annuities (retail and employee benefits)	40 133	39 963	40 014	40 133	40 593	41 510
Employee benefits business (excluding annuities)	3 683	3 683	3 683	3 683	3 686	3 693
Investment with DPF business	25 133	25 094	25 117	25 136	25 111	25 379
Investment business	221 276	221 265	221 272	221 276	221 275	223 012
Subtotal	351 535	350 190	350 613	351 827	349 943	355 223
Cell captive and short-term business	20 543					
Total	372 078	350 190	350 613	351 827	349 943	355 223

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.

10 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES *continued*

Sensitivity analysis *continued*

The sensitivities were chosen because they represent the main assumptions regarding future experience that the group employs in determining its insurance liabilities. The magnitudes of the variances were chosen to be consistent with the sensitivities shown in MMI's published EV 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 on the previous page 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 in 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 R123 million (2016: R126 million) in the before-tax earnings of the group.

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 group'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.

11 FINANCIAL LIABILITIES

ACC POLICY
Annex D11 and 23

The group classifies its financial liabilities into the following categories:

- Financial liabilities at fair value through income, including derivative financial liabilities
- 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.

		2017 Rm	2016 Rm
	The group's financial assets are summarised below:		
11.1	**Financial liabilities designated at fair value through income**	**37 331**	38 374
	Derivative financial liabilities (refer to note 6.3)	**1 827**	2 097
11.2	**Financial liabilities at amortised cost**	**1 229**	1 058
11.3	**Other payables (excluding deferred revenue liability and premiums paid in advance)**	**12 665**	12 948
		53 052	54 477
11.1	**Financial liabilities designated at fair value through income**		
	Collective investment scheme liabilities	**24 961**	26 368
	Subordinated call notes	**3 602**	3 557
	Carry positions	**7 676**	7 313
	Preference shares	**1 018**	1 018
	Other	**74**	118
		37 331	38 374
	Current	**32 748**	34 814
	Non-current	**4 583**	3 560
		37 331	38 374

11 FINANCIAL LIABILITIES *continued*

11.1 Financial liabilities designated at fair value through income *continued*

- Collective investment scheme liabilities – certain collective investment schemes have been classified as investments in subsidiaries; refer to Annexure A. Consequently, scheme interests not held by the group are classified as third-party liabilities as they represent demand deposit liabilities measured at fair value.
- Subordinated call notes (unsecured) – the FSB granted approval for MMIGL to raise debt issuances. MMIGL has sufficient cash to cover the debt. Refer to note 35 for more detail.
- Carry positions (secured) – R7 676 million (2016: R7 313 million) relates to a carry position reported by the group that represents a sale and repurchase of assets in specific group annuity portfolios. These carry positions are secured by government stock with a value of R7 470 million (2016: R7 357 million). Offsetting has not been applied.
- Preference shares – On 26 June 2014, MMI Strategic Investments (Pty) Ltd issued 1 000 cumulative redeemable preference shares at R1 million per share to FirstRand Bank Ltd. The declaration of preference dividends was calculated at 77% of JIBAR plus 175 basis points with an original redemption date of 27 June 2017. The maturity of the preference shares was extended in the current year to 28 June 2020 on new terms being preference dividends calculated at 72% of JIBAR plus 180 basis points. Dividends are payable on 31 March and 30 September of each year. The issuer has an option to redeem the preference shares on any dividend payment date.
- Included in other financial liabilities designated at fair value through income:
  - Non-controlling interests of 25% of Metropolitan Life Kenya and Cannon have the option to sell their shares from 3 October 2016 at a price linked to EV. In terms of IFRS, the group has recognised a financial liability of R58 million (2016: R104 million), being the present value of the estimated purchase price, for exercising this option. The group has consolidated 96% of the subsidiaries' results.
- These instruments would have been disclosed as payables under IAS 39 had they not been designated at fair value through income.

	2017 Rm	2016 Rm
11.2 Financial liabilities at amortised cost		
Borrowings		
Cumulative redeemable convertible preference shares	**261**	275
Property development loans	**867**	585
Other	**101**	198
	1 229	1 058
Current	**661**	605
Non-current	**568**	453
	1 229	1 058

11.2.1 Cumulative redeemable convertible preference shares

MMI Holdings Ltd had 30 350 649 A3 cumulative convertible redeemable preference shares in issue (to KTH, the group's strategic BEE partner) at the beginning of the year. Dividends are payable semi-annually in arrears on 31 March and 30 September each year.

The A3 preference shares are convertible, at the option of the holder, into ordinary shares on a one-for-one basis at any time before the compulsory redemption date of 29 December 2017 (after extending it under the same terms by six months in the current year). On each of 3 October 2016 and 3 April 2017, 1 million preference shares were converted into ordinary shares. In the prior year on 1 October 2015 and 5 April 2016, 1 million preference shares were converted into ordinary shares. The shares were originally issued at a price of R10.18 per share. Dividends are payable on the remaining preference shares at 132 cents per annum. The extension was treated as a renegotiation of the original contract. The liability has therefore been adjusted by the present value of the additional cash flow resulting from the extension.

The equity component of the preference shares is included in note 16.5.

11.2.2 Property development loans

Included in property development loans are:

- A R487 million (2016: R492 million) loan from FirstRand Bank Ltd in order to develop property held by a subsidiary, 102 Rivonia (Pty) Ltd. Interest on the loan is levied at 11%. The loan is secured by the underlying property.
- A R183 million (2016: Rnil million) loan from Standard Bank Ltd in order to develop property held by a subsidiary MMI Umhlanga (Pty) Ltd. Interest on the loan is levied at JIBAR plus 2.30%. The loan is secured by the underlying property.

		2017 Rm	2016 Rm
11	**FINANCIAL LIABILITIES** *continued*		
11.3	**Other payables**		
	Payables arising from insurance contracts and investment contracts with DPF	**5 277**	5 610
	Claims in process of settlement		
	Insurance contracts	**3 533**	4 663
	Investment contracts with DPF	**860**	134
	Due to reinsurers	**884**	813
	Payables arising from investment contracts	**668**	157
	Financial instruments	**6 720**	7 181
	Unsettled trades	**852**	2 022
	Amounts payable in respect of broking activities	**1 002**	1 017
	Commission creditors	**939**	812
	Health saver liability	**234**	186
	Other payables	**3 693**	3 144
	Total included in financial liabilities	**12 665**	12 948
	Deferred revenue liability	**482**	449
	Premiums paid in advance	**981**	987
	Total other payables	**14 128**	14 384
	Current	**13 071**	13 986
	Non-current	**1 057**	398
		14 128	14 384
	Reconciliation of deferred revenue liability		
	Balance at beginning of year	**449**	409
	Deferred income relating to new business	**130**	97
	Amount recognised in income statement (refer to note 18)	**(97)**	(57)
	Balance at end of year	**482**	449

11.4 Financial liabilities hierarchy

Refer to Annexure E for the valuation techniques relating to this note.

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	**1 064**	**232 335**	**35**	**233 434**
Financial liabilities designated at fair value through income	**24 744**	**12 307**	**280**	**37 331**
Collective investment scheme liabilities	**24 744**	**11**	**206**	**24 961**
Subordinated call notes	**–**	**3 602**	**–**	**3 602**
Carry positions	**–**	**7 676**	**–**	**7 676**
Preference shares	**–**	**1 018**	**–**	**1 018**
Other borrowings	**–**	**–**	**74**	**74**
Derivative financial liabilities – held for trading	**46**	**1 781**	**–**	**1 827**
	25 854	**246 423**	**315**	**272 592**
2016				
Investment contracts designated at fair value through income	1 042	231 672	76	232 790
Financial liabilities designated at fair value through income	25 987	12 035	352	38 374
Collective investment scheme liabilities	25 987	147	234	26 368
Subordinated call notes	–	3 557	–	3 557
Carry positions	–	7 313	–	7 313
Preference shares	–	1 018	–	1 018
Other borrowings	–	–	118	118
Derivative financial liabilities – held for trading	29	2 068	–	2 097
	27 058	245 775	428	273 261

[1] There were no significant transfers between level 1 and level 2 liabilities for both the current and prior years.

11 **FINANCIAL LIABILITIES** *continued*

11.4 **Financial liabilities hierarchy** *continued*

A reconciliation of the level 3 liabilities has been provided below:

	Financial liabilities designated at fair value through income			
2017	**Investment contracts Rm**	**Collective investment scheme liabilities Rm**	**Other borrowings Rm**	**Total Rm**
Opening balance	76	234	118	428
Total (gains)/losses in net realised and fair value gains in the income statement				
Realised losses	4	–	–	4
Unrealised gains	(13)	(23)	(38)	(74)
Total losses in other comprehensive income	–	19	–	19
Issues	–	7	–	7
Sales	–	(6)	–	(6)
Settlements	–	(25)	(6)	(31)
Contract holder movements				
Benefits paid	(36)	–	–	(36)
Investment return	4	–	–	4
Transfers out of level 3	–	–	–	–
Closing balance	35	206	74	315
2016				
Opening balance	144	964	145	1 253
Total losses/(gains) in net realised and fair value gains in the income statement				
Realised (gains)/losses	(1)	1	–	–
Unrealised losses/(gains)	4	128	(7)	125
Total losses in other comprehensive income	–	23	–	23
Issues	–	8	9	17
Sales	–	(10)	–	(10)
Settlements	–	(826)	(29)	(855)
Contract holder movements				
Benefits paid	(76)	–	–	(76)
Investment return	5	–	–	5
Transfers out of level 3	–	(54)	–	(54)
Closing balance	76	234	118	428

Sensitivity: Increasing/decreasing the investment return by 10% would decrease/increase the carrying value of level 3 financial instrument liabilities by R28 million and R28 million (2016: R39 million and R39 million), respectively.

11 FINANCIAL LIABILITIES *continued*

11.4 Financial liabilities hierarchy *continued*

The following table provides an analysis of the fair value of financial liabilities not carried at fair value in the statement of financial position:

	2017 Carrying value Rm	2017 Fair value Rm	2016 Carrying value Rm	2016 Fair value Rm
Investment contracts with DPF	**24 338**	**24 338**	25 195	25 195
Amortised cost	**1 229**	**1 551**	1 058	1 471
Cumulative redeemable preference shares	**261**	**583**	275	688
Other	**968**	**968**	783	783
Other payables	**12 665**	**12 665**	12 948	12 948
Payables arising from investment contracts	**668**	**668**	157	157
Other payables	**11 997**	**11 997**	12 791	12 791
	38 232	**38 554**	39 201	39 614

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 estimated fair value of preference shares is based on the market value of the listed ordinary shares, adjusted for the differences in the estimated dividend cash flows between the valuation and conversion dates. As the preference shares are already convertible, the market value is deemed to be the minimum value. In 2017, the expected cash flows were discounted at a current market rate of 12% (2016: 12%). The conversion of the preference shares is at the option of the preference shareholder; the date of conversion was estimated based on the most beneficial dividend stream to the holder *(level 2)*.
- For other liabilities at amortised cost, payables arising from investment contracts and other payables, the carrying value approximates fair value due to their short-term nature.

ACC POLICY
Annex D10

	2017 Rm	2016 Rm
12 REINSURANCE CONTRACT LIABILITIES		
Balance at beginning	**973**	659
Change in liabilities under reinsurance agreements	**389**	314
New financial reinsurance agreements	**581**	454
Repayments	**(219)**	(130)
Change in estimates	**27**	(10)
Reinsurance ceded	**6**	–
Balance at end	**1 368**	973
Current	**220**	147
Non-current	**1 148**	826
	1 368	973

The reinsurance liability relates to a financial reinsurance agreement with registered reinsurers, whereby the reinsurer provided upfront funding to cells within Guardrisk and Momentum Ability. The cells then repay this funding over an agreed term and the liability associated with this repayment is disclosed above.

Refer to note 10 for relevant assumptions and estimates applied in valuation of the reinsurance liabilities.

	ACC POLICY Annex D12	2017 Rm	2016 Rm
13	**DEFERRED INCOME TAX**		
	Deferred tax asset	**249**	279
	Deferred tax liability	**(3 198)**	(3 812)
		(2 949)	(3 533)
	Deferred tax is made up as follows:		
	Accruals and provisions	**89**	163
	Accelerated wear and tear	**(81)**	(65)
	Revaluations	**(859)**	(1 253)
	Deferred tax on intangible assets as a result of business combinations	**(2 112)**	(2 378)
	Deferred revenue liability	**159**	155
	Difference between published and statutory policyholder liabilities	**974**	716
	Tax losses	**373**	206
	Negative rand reserves	**(790)**	(375)
	Deferred acquisition costs	**(618)**	(614)
	Prepayments	**(8)**	(9)
	Other	**(76)**	(79)
		(2 959)	(3 533)
	Current	**(101)**	(15)
	Non-current	**(2 848)**	(3 518)
		(2 949)	(3 533)
	Movement in deferred tax		
	Balance at beginning	**(3 533)**	(4 064)
	Charge to the income statement	**599**	549
	Accruals and provisions	**(74)**	(41)
	Accelerated wear and tear	**(16)**	(21)
	Revaluations	**426**	286
	Deferred tax on intangible assets as a result of business combinations	**244**	188
	Deferred revenue liability	**4**	(4)
	Difference between published and statutory policyholder liabilities	**258**	104
	Tax losses	**167**	20
	Negative rand reserves	**(415)**	33
	Deferred acquisition costs	**(4)**	(16)
	Prepayments	**1**	(1)
	Other	**8**	1
	Charge to other comprehensive income (refer to note 16)	**(32)**	(16)
	Other	**17**	(2)
	Balance at end	**(2 949)**	(3 533)
	Deferred tax asset on available tax losses and credits not provided for	**402**	425

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

Included in the deferred tax asset of R373 million (2016: R206 million) raised due to tax losses, is a deferred tax asset of R134 million (2016: R163 million), the utilisation of which depends on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences, and the subsidiary has suffered a loss in either the current or preceding year. Based on approved budgets prepared by management of these subsidiaries, the group considers it probable that the deferred tax asset will be used against future taxable profits.

No deferred tax liability is recognised on temporary differences of R888 million (2016: R754 million) relating to the unremitted earnings of international subsidiaries as the group is able to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future.

Critical accounting estimates and judgements
The group is subject to direct taxation in a number of jurisdictions. There may be transactions and calculations where the ultimate taxation determination has an element of uncertainty during the ordinary course of business. The group 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.

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		2017 Rm	2016 Rm
14	**EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS**		
14.1	**Employee benefit assets**		
	Sage Group Pension Fund (SGPF)	**269**	248
	Metropolitan Staff Retirement Fund (MSRF)	**71**	128
	Other	**70**	69
	Fair value of plan assets	**410**	445

Details of the plans

All full-time employees in the ex-Momentum group (MMIGL and its subsidiaries before the merger with Metropolitan) are members of either defined benefit pension funds or defined contribution schemes that are governed by the Pension Funds Act, 24 of 1956. The SGPF is a final salary defined benefit plan. The remaining liability in the fund is in respect of pensioners who are still being traced. It is expected that the fund will be liquidated or deregistered within the next financial year and the plan assets will be transferred to the employer. The plan assets comprise 100% of cash and cash equivalents.

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 contributed to the provident fund section. The fair value of the plan assets represents the balance of the Employer Surplus Account (ESA) valued at market value at year-end. All active members have transferred to the MMI Group Retirement Scheme, and the MSRF has commenced with a process to wind up. During this financial period, the Registrar of Pension Funds approved the conversion and transfer of the Employer's obligation for additional retirement benefits in lieu of the post-retirement medical scheme contributions subsidy for eligible members to members' fund credits in the MMI Group Retirement Scheme. The payment of these transfer values were financed from a portion of the ESA.

Key valuation assumptions for the plans

The key valuation assumptions used was a discount rate of 8% (2016: 9%) and an expected rate of return on plan assets of 9% (2016: 9%).

Income statement movement and future contributions

The total movement of R45 million (2016: R39 million) is recognised in the income statement in employee benefit expenses (refer to note 23). Future employer contributions are estimated to be minimal given the planned wind-up of the plans in the following year.

	2017 Rm	2016 Rm
14 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*		
14.2 Employee benefit obligations		
14.2.1 Post-retirement medical benefits	**234**	328
14.2.2 Cash-settled arrangements	**425**	500
Other employee benefit obligations	**675**	624
Total employee benefit obligations	**1 334**	1 452
Current	**545**	568
Non-current	**789**	884
	1 334	1 452
Employee benefit expenses are included in the income statement. Refer to note 23.		
14.2.1 Post-retirement medical benefits		
Balance at beginning – unfunded	**328**	322
Current service costs	**2**	2
Past service cost	**(21)**	–
Interest expense	**30**	28
Actuarial gains – other comprehensive income	**(21)**	(6)
Employer contributions	**(1)**	(18)
Benefits paid and transferred	**(83)**	–
Balance at end – unfunded	**234**	328
Current	**25**	81
Non-current	**209**	247
	234	328

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:

			Change in value of liability	
Assumptions	**Base assumption**	**Change in significant assumption**	**Decrease in significant assumption Rm**	**Increase in significant assumption Rm**
Healthcare cost inflation rate				
Defined benefit fund	**9% (2016: 8%)**	**3%**	**(22)**	**25**
Valuation rate of interest/ discount rate	**9% (2016: 10%)**			
Administration fee inflation	**8% (2016: 8%)**			
Normal retirement age	**60 – 62 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 to 10 years**			

The weighted average duration of the post-retirement medical benefits obligation is 11.1 years (2016: 11.5 years).

		2017 Rm	2016 Rm
14	**EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS** *continued*		
14.2	**Employee benefit obligations** *continued*		
14.2.2	***Cash-settled arrangements***		
	Retention and remuneration schemes		
	Balance at beginning	**500**	645
	Additional provisions	**225**	169
	Benefits paid	**(298)**	(314)
	Exchange differences	**(2)**	–
	Balance at end	**425**	500
	Current	**224**	248
	Non-current	**201**	252
		425	500

Momentum share schemes

The ex-Momentum group had various cash-settled share schemes in place at the time of the merger with Metropolitan in December 2010.

Momentum Sales Scheme (MSS)

MSS was set up specifically for the benefit of the sales staff. Allocations were 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 vest equally over the third, fourth and fifth anniversary. In November 2013 it was decided to no longer issue options under this scheme. The previous grants of share options will run out over the relevant term pertaining to the specific grants. When the shares vest, the group will make a cash payment to the employee to the value of the share price on vesting date. No shares are issued by the group and therefore the scheme remains cash-settled.

MMI share schemes

Subsequent to the merger, the group started share schemes linked to MMI Holdings Ltd shares.

MMI Long-term Incentive Plan (MMI LTIP)

Certain key senior staff members were identified as vital to the future success of the group, 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 EV of the group. The units will therefore vest after a period of three years, and the group'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).

Momentum Sales Phantom Shares (MSPS)

In November 2013, Momentum Sales issued phantom shares to sales staff. Allocations made will vest in three equal tranches on the third, fourth and fifth anniversary, after the grant date. When the shares vest, the group will make a cash payment to the employee to the value of the share price on vesting date. No shares are issued by the group and therefore the scheme is cash-settled.

14 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*
14.2 Employee benefit obligations *continued*
14.2.2 Cash-settled arrangements *continued*

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 group's targeted Return on Embedded Value (ROEV) of Nominal GDP +6%. Participants are primarily awarded performance units (vesting subject to certain group and individual performance criteria being met), while 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.

MSS	2017 '000	2016 '000
Options in force at 1 July	**4 525**	8 855
Granted at prices ranging from (cents)	**1 699 – 2 256**	1 699 – 2 256
Options exercised/released during year	**(2 988)**	(3 880)
Market value of range at date of exercise/release (cents)	**2 234 – 2 495**	2 304 – 2 507
Options cancelled/lapsed during year	**(85)**	(450)
Granted at prices ranging from (cents)	**1 666 – 2 256**	1 666 – 2 256
Options in force at 30 June	**1 452**	4 525
Granted at prices ranging from (cents)	**1 666 – 2 256**	1 666 – 2 256
Units outstanding (by expiry date) for MSS are as follows:		
Financial year 2017	**–**	3 014
Financial year 2018	**1 452**	1 511
Total outstanding shares	**1 452**	4 525

	2017	2016
Valuation assumptions of MSS:		
Share price	**R19.96**	R21.99
Volatility	**13.03% – 14.23%**	13.7% – 16.6%
Dividend yield	**6.6%**	6.2%
Forfeiture rate	**5.0%**	5.0%
Risk-free yield curve	**7.14% – 7.16%**	7.2% – 7.5%

14 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*
14.2 Employee benefit obligations *continued*
14.2.2 Cash-settled arrangements *continued*

	MMI LTIP Retention units '000	MMI LTIP Performance units '000	MSPS '000	MMI OP Retention units '000	MMI OP Performance units '000
Units in force at 1 July 2015	16 075	18 629	3 883	187	10 111
Units granted during year	8 681	9 524	1 740	13	674
Units exercised/released during year	(4 794)	(6 469)	(6)	–	–
Units cancelled/lapsed during year	(1 649)	(2 234)	(387)	–	(97)
Units in force at 30 June 2016	**18 313**	**19 450**	**5 230**	**200**	**10 688**
Units granted during year	**9 592**	**11 304**	**1 690**	**14**	**693**
Units exercised/released during year	**(6 231)**	**(6 025)**	**(519)**	**–**	**–**
Units cancelled/lapsed during year	**(2 113)**	**(2 144)**	**(262)**	**–**	**(1 218)**
Units in force at 30 June 2017	**19 561**	**22 585**	**6 139**	**214**	**10 163**

Market value of range at date of exercise/release

For MMI LTIP, the units were exercised/released at market values between 2 216 cents and 2 506 cents (2016: 2 122 cents and 3 021 cents). For MSPS, the units were exercised/released at a market value between 2 216 cents and 2 495 cents (2016: 2 100 cents).

Units outstanding (by expiry date) for the MMI LTIP, MSPS and MMI OP at 30 June 2017 are as follows:

2017	MMI LTIP Retention units '000	MMI LTIP Performance units '000	MSPS '000	MMI OP Retention units '000	MMI OP Performance units '000
Financial year 2018	**5 276**	**5 376**	**1 149**	**–**	**–**
Financial year 2019	**6 568**	**7 649**	**1 665**	**128**	**6 098**
Financial year 2020	**7 717**	**9 560**	**1 724**	**86**	**4 065**
Financial year 2021	**–**	**–**	**1 059**	**–**	**–**
Financial year 2022	**–**	**–**	**542**	**–**	**–**
Total outstanding shares	**19 561**	**22 585**	**6 139**	**214**	**10 163**

Valuation assumptions relating to outstanding units at 30 June:

MMI LTIP 2017	Units granted during the current year Retention units 14th tranche	15th tranche	16th tranche
Award date	**25-Sep-16**	**01-Oct-16**	**01-Apr-17**
Vesting date	**25-Sep-18**	**01-Oct-19**	**01-Apr-20**
Outstanding units (thousands)	**150**	**7 503**	**214**
Valuation assumptions include:			
Outstanding tranche period in years	**1.24**	**2.25**	**3.75**
Take-up rate on units outstanding	**88%**	**82%**	**82%**
Current vesting rate	**100%**	**100%**	**100%**
Adjusted share price, adjusted for future dividends and past special distributions	**R20.24**	**R20.24**	**R20.24**

14 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*
14.2 Employee benefit obligations *continued*
14.2.2 Cash-settled arrangements continued

2017 continued	Performance units 15th tranche	16th tranche
Award date	01-Oct-16	01-Apr-17
Vesting date	01-Oct-19	01-Apr-20
Outstanding units (thousands)	9 095	465
Valuation assumptions include:		
Outstanding tranche period in years	2.25	3.75
Take-up rate on units outstanding	82%	82%
Current vesting rate	30%	30%
Adjusted share price, adjusted for future dividends and past special distributions	R20.24	R20.24

2016	Retention units 10th tranche	11th tranche	12th tranche	13th tranche
Award date	25-Sep-15	01-Oct-15	04-Apr-16	30-Jun-16
Vesting date	25-Sep-17	01-Oct-18	04-Apr-19	30-Jun-19
Outstanding units (thousands)	491	6 447	148	218
Valuation assumptions include:				
Outstanding tranche period in years	1.24	2.25	2.75	3.00
Take-up rate on units outstanding	88%	82%	82%	82%
Current vesting rate	100%	100%	100%	100%
Adjusted share price, adjusted for future dividends and past special distributions	R22.64	R22.64	R22.64	R22.64

2016 continued	Performance units 8th tranche	9th tranche	10th tranche
Award date	01-Oct-15	04-Apr-16	30-Jun-16
Vesting date	01-Oct-18	04-Apr-19	30-Jun-19
Outstanding units (thousands)	7 644	202	218
Valuation assumptions include:			
Outstanding tranche period in years	2.25	2.75	3.00
Take-up rate on units outstanding	82%	82%	82%
Current vesting rate	100%	100%	100%
Adjusted share price, adjusted for future dividends and past special distributions	R22.64	R22.64	R22.64

Vesting rate assumptions regarding performance units in the table above:
As stated on page 182, the performance units in the MMI LTIP are subject to performance criteria. These performance criteria have been set as detailed in the Remuneration Report set out on page 84 of this integrated report.

Long Term Incentive Plan (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) is 87% of face value. The estimated vesting percentage of performance units issued in subsequent periods are 60% of face value for vesting in October 2018, and 30% of face value for vesting in October 2019.

For a one percentage point increase in the return on embedded value achieved after 30 June 2017, it was estimated that an additional 19% of affected performance units under the LTIP will vest. This represents an additional cost of R47 million to the scheme.

14 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*

14.2 Employee benefit obligations *continued*

14.2.2 Cash-settled arrangements *continued*

Outperformance plan (OPP)

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 four to five years.

As at 30 June 2017, it was estimated that 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.

MSPS 2017	19th tranche	20th tranche	21st tranche
Award date	**01-Nov-16**	**01-Nov-16**	**01-Nov-16**
Vesting date	**01-Nov-19**	**01-Nov-20**	**01-Nov-21**
Outstanding units (thousands)	**542**	**542**	**542**
Valuation assumptions include:			
Outstanding tranche period in years	**2.34**	**3.34**	**4.34**
Take-up rate on units outstanding	**100%**	**100%**	**100%**
Current vesting rate	**95%**	**95%**	**95%**

2016	16th tranche	17th tranche	18th tranche
Award date	01-Nov-15	01-Nov-15	01-Nov-15
Vesting date	01-Nov-18	01-Nov-19	01-Nov-20
Outstanding units (thousands)	551	551	551
Valuation assumptions include:			
Outstanding tranche period in years	2.33	3.33	4.33
Take-up rate on units outstanding	100%	100%	100%
Current vesting rate	95%	95%	95%

Tranches vested during the current or prior year

MMI LTIP: The second tranche was settled in November 2015 at R24.89 per share totalling R259 million.
MMI LTIP: The third tranche was settled in April 2016 at R23.68 per share totalling R4 million.
MMI LTIP: The fourth tranche was settled in October 2016 at R22.50 per share totalling R210 million.
MMI LTIP: The fifth tranche was settled in March 2017 at R25.00 per share totalling R28 million.
MMI LTIP: The sixth tranche was settled in May 2017 at R22.81 per share totalling R11 million.

Share-based payment expense

The share-based payment expense relating to cash-settled schemes is R225 million (2016: R169 million) for the group and is disclosed under employee benefit expenses in note 23.

ACC POLICY
Annex D21

15 SHARE CAPITAL AND SHARE PREMIUM

In December 2010, Metropolitan Holdings Ltd (now MMI Holdings Ltd) became the legal parent company of Momentum Group Ltd, now MMI Group Ltd (MMIGL), by acquiring all the shares in MMIGL from FirstRand Ltd. As this was accounted for as a reverse acquisition under IFRS 3 – Business combinations (revised) – the share capital and share premium of the group in the consolidated financial statements are those of MMIGL. The equity structure in terms of the number of authorised and issued shares in the consolidated financial statements reflects the equity structure of MMI Holdings Ltd.

Authorised share capital of MMI Holdings Ltd

- 2 billion ordinary shares of 0.0001 cents each.
- 129 million (76 million A1, 13 million A2 and 40 million A3) variable rate cumulative redeemable convertible preference shares of 0.0001 cents each.

Authorised share capital of MMIGL

- 225 million ordinary shares of 5 cents each.
- 50 000 non-redeemable, non-cumulative, non-participating preference shares of 5 cents each.
- 4 104 000 convertible, participating, non-voting preference shares of 5 cents each.

Issued share capital

The issued share capital of the group reflects the issued share capital of MMI Holdings Ltd.

	2017 Rm	2016 Rm
Balance at beginning	**13 856**	13 804
Treasury shares held on behalf of contract holders	**(124)**	35
Conversion of preference shares net of share issue costs	**14**	17
	13 746	13 856
Share capital	**9**	9
Share premium	**13 737**	13 847
	13 746	13 856

MMI Holdings Ltd ordinary shares	2017 Million	2016 Million
Total issued MMI Holdings Ltd shares at 30 June	**1 574**	1 572
Conversion of preference shares	**1**	2
Total ordinary shares in issue	**1 575**	1 574
Treasury shares held on behalf of contract holders	**(18)**	(13)
Basic number of shares in issue	**1 557**	1 561
Convertible redeemable preference shares	**29**	30
Diluted number of shares in issue	**1 586**	1 591
Treasury shares held on behalf of contract holders	**18**	13
Diluted number of shares in issue for core headline earnings purposes	**1 604**	1 604

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

Preference shares

MMI Holdings Ltd had 30 million A3 preference shares in issue at the beginning of the year. The variable rate, redeemable, convertible preference shares are compound instruments with a debt and an equity component. The fair value of the equity component is disclosed under note 16 and the debt component is disclosed under note 11.2. On 3 October 2016 and 3 April 2017, 781 043 and 755 988 A3 preference shares, respectively, were converted to ordinary shares. Refer to note 11.2 for more details.

MMIGL has 50 000 non-redeemable, non-cumulative, non-participating preference shares in issue. These preference shares are held by MMI Holdings Ltd and have therefore been eliminated at a group level.

Dividends

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

		2017 Rm	2016 Rm
16	**OTHER COMPONENTS OF EQUITY**		
16.1	**Land and building revaluation reserve**	807	742
16.2	**Foreign currency translation reserve**	(98)	122
16.3	**Revaluation of available-for-sale investments**	7	11
16.4	**Non-distributable reserve**	54	50
16.5	**Employee benefit revaluation reserve**	88	77
16.6	**Fair value adjustment for preference shares issued by MMI Holdings Ltd**	940	940
16.7	**Equity-settled share-based payment arrangements**	(10)	13
		1 788	1 955
	Movements in other reserves		
16.1	**Land and building revaluation reserve**		
	ACC POLICY Annex D5		
	Balance at beginning	742	631
	Earnings directly attributable to other components of equity	110	108
	Revaluation	142	124
	Deferred tax on revaluation	(32)	(16)
	Transfer (to)/from retained earnings	(45)	3
	Balance at end	807	742
16.2	**Foreign currency translation reserve**		
	ACC POLICY Annex D3		
	Balance at beginning	122	181
	Currency translation differences	(220)	(59)
	Balance at end	(98)	122
16.3	**Revaluation of available-for-sale investments**		
	ACC POLICY Annex D7		
	Balance at beginning	11	8
	Fair value (loss)/gain – gross	(4)	3
	Balance at end	7	11
16.4	**Non-distributable reserve**		
	Balance at beginning	50	19
	Transfer from retained earnings	5	29
	Other	(1)	2
	Balance at end	54	50
16.5	**Employee benefit revaluation reserve**		
	ACC POLICY Annex D19		
	Balance at beginning	77	78
	Remeasurement of post-employment benefit obligations	11	(1)
	Balance at end	88	77
16.6	**Fair value adjustment for preference shares issued by MMI Holdings Ltd**		
	Equity component of preference shares issued	940	940

This represents the write-up of the carrying value of the preference shares issued by MMI Holdings Ltd to KTH to fair value, as part of the fair value exercise performed on Metropolitan as a result of the merger with Momentum in December 2010.

		2017 Rm	2016 Rm
16.7	**Equity-settled share-based payment arrangements**		
	BEE share-based payment		
	Balance at beginning	13	9
	Employee share schemes – value of services provided	(23)	4
	Balance at end	(10)	13

In the current year the group acquired shares in MHC previously held by KTH. These shares were previously considered an equity-settled award. Under IFRS 2 any payment made to a counterparty on cancellation or settlement of a grant of equity instruments is accounted for as a repurchase of an equity instrument and is therefore deducted from equity. The payment did not exceed the fair value of the equity instrument and therefore no expense was recognised.

	ACC POLICY Annex D10	2017 Rm	2016 Rm
17	**NET INSURANCE PREMIUMS**		
	Premiums received	**39 403**	38 589
	Long-term insurance contracts	**27 424**	25 859
	Health premiums	**1 139**	1 190
	Investment contracts with DPF	**2 179**	3 396
	Short-term insurance	**8 661**	8 144
	Premiums received ceded to reinsurers	**(11 212)**	(9 618)
		28 191	28 971

Included in the above is R13 807 million (2016: R10 717 million) premiums and R9 861 million (2016: R7 473 million) reinsurance relating to cell captives.

	ACC POLICY Annex D24	2017 Rm	2016 Rm
18	**FEE INCOME**		
	Contract administration	**2 477**	2 471
	Investment contract administration	**2 380**	2 414
	Release of deferred front-end fees	**97**	57
	Trust and fiduciary services	**1 608**	1 892
	Asset management	**581**	501
	Asset administration	**640**	630
	Retirement fund administration	**387**	761
	Health administration	**1 764**	1 945
	Other fee income	**1 562**	1 371
	Administration fees received	**191**	251
	Multiply fee income	**425**	357
	Cell captive fee income	**526**	353
	Other	**420**	410
		7 411	7 679

	ACC POLICY Annex D24	2017 Rm	2016 Rm
19	**INVESTMENT INCOME**		
	Designated at fair value through income		
	Dividend income – listed	**3 380**	3 120
	Dividend income – unlisted	**630**	1 002
	Interest income	**13 705**	12 345
	Designated at fair value through income	**11 834**	10 872
	Held-to-maturity	**92**	3
	Loans and receivables	**260**	206
	Cash and cash equivalents	**1 519**	1 264
	Rental income	**1 149**	1 036
	Investment properties	**1 134**	1 034
	Owner-occupied properties	**15**	2
	Other income	**94**	19
		18 958	17 522

ACC POLICY Annex D6, 7 and 11

		2017 Rm	2016 Rm
20	**NET REALISED AND FAIR VALUE GAINS**		
	Financial assets	**(138)**	11 356
	Designated at fair value through income	**(69)**	10 516
	Derivative financial instruments – (losses)/gains	**(35)**	744
	Net realised and unrealised foreign exchange differences on financial instruments not designated at fair value through income	**(34)**	96
	Financial liabilities		
	Designated at fair value through income	**–**	41
	Investment property	**206**	306
	Valuation gains	**230**	354
	Change in accelerated rental income	**(24)**	(48)
	Other investments	**115**	121
		183	11 824

ACC POLICY Annex D10

		2017 Rm	2016 Rm
21	**NET INSURANCE BENEFITS AND CLAIMS**		
	Long-term insurance contracts	**20 602**	21 177
	Death and disability claims	**10 217**	9 647
	Maturity claims	**3 839**	5 082
	Annuities	**3 523**	3 386
	Surrenders	**2 793**	2 898
	Terminations, disinvestments and withdrawal benefits	**230**	164
	Health and capitation benefits incurred	**957**	1 032
	Short-term insurance benefits incurred	**5 080**	5 043
	Short-term insurance change in provision for outstanding claims	**(3)**	250
	Investment contracts with DPF	**3 873**	5 030
	Death and disability claims	**82**	63
	Maturity claims	**936**	878
	Annuities	**320**	194
	Surrenders	**418**	322
	Terminations, disinvestments and withdrawal benefits	**2 117**	3 573
		30 509	32 532
	Amounts recovered from reinsurers	**(6 068)**	(5 923)
		24 441	26 609

Included in the above is R7 047 million (2016: R6 489 million) claims and R4 717 million (2016: R3 924 million) reinsurance relating to cell captives.

ACC POLICY Annex D4, 5 and 7

		2017 Rm	2016 Rm
22	**DEPRECIATION, AMORTISATION AND IMPAIRMENT EXPENSES**		
	Depreciation	**233**	253
	Owner-occupied properties (refer to note 3)	**77**	75
	Equipment	**156**	178
	Amortisation (refer to note 2)	**917**	993
	Value of in-force business acquired	**317**	324
	Customer relationships	**368**	424
	Brands	**62**	62
	Broker network	**22**	34
	Computer software	**148**	149
	Impairment of intangible assets (refer to note 2)	**417**	158
	Goodwill	**100**	104
	Customer relationships	**84**	–
	Brands	**18**	–
	Computer software	**215**	54
	Impairment of owner-occupied property (refer to note 3)	**28**	3
	Impairment of financial assets – Loans and receivables	**70**	1
		1 665	1 408

	ACC POLICY Annex D19	2017 Rm	2016 Rm
23	**EMPLOYEE BENEFIT EXPENSES**		
	Salaries	4 392	4 482
	Contributions to medical aid funds	180	200
	Defined benefit retirement fund	3	5
	Defined contribution retirement fund	275	287
	Post-retirement medical benefits	2	14
	Retirement fund assets (refer to note 14.1)	(45)	(39)
	Share-based payment expenses – Cash-settled arrangements (refer to note 14.2.2)	225	169
	Current service costs – International subsidiaries' share schemes	57	61
	Training costs	76	84
	Other	84	78
		5 249	5 341
	For detail of directors' and prescribed officers' emoluments, refer to the remuneration report.		
24	**SALES REMUNERATION** (ACC POLICY Annex D10)		
	Commission incurred for the acquisition of insurance contracts	3 818	4 005
	Commission incurred for the acquisition of investment contracts	1 081	1 034
	Amortisation of deferred acquisition costs	387	289
	Movement in provision for impairment of amounts due from agents, brokers and intermediaries	(3)	(24)
		5 283	5 304
25	**OTHER EXPENSES** (ACC POLICY Annex D25)		
	Administration fees paid – Binder and outsourcing fees	44	76
	Asset management fees	2 881	2 152
	Auditors' remuneration	118	99
	Audit fees	111	95
	Fees for other services	7	4
	Bad debts written off	34	15
	Bank charges	96	103
	Consulting fees	679	641
	Direct property operating expenses on investment property	451	329
	Information technology expenses	560	657
	Marketing costs	389	442
	Multiply benefit payments	410	374
	Office costs	668	731
	Operating lease charges	94	94
	Other indirect taxes	268	299
	Policy services	49	40
	Travel expenses	203	233
	Other expenses	423	410
		7 367	6 695
26	**FINANCE COSTS** (ACC POLICY Annex D25)		
	Interest expense on financial liabilities		
	Redeemable preference shares	112	110
	Unsecured subordinated call notes	351	341
	Cost of carry positions	408	346
	Other	152	140
		1 023	937

ACC POLICY
Annex D13

	2017 Rm	2016 Rm
27 INCOME TAX EXPENSE		
Income tax expenses/(credits)		
Current taxation	**3 536**	2 713
Shareholder tax		
South African normal tax – current year	**1 341**	1 267
South African normal tax – prior year	**206**	(24)
Foreign countries – normal tax	**82**	67
Foreign withholding tax	**76**	103
Contract holder tax		
Tax on contract holder funds – current year	**724**	499
Tax attributable to cell captive owners*	**1 107**	801
Deferred tax	**(599)**	(549)
Shareholder tax		
South African normal tax – current year	**(319)**	(249)
Foreign countries – normal tax	**–**	(6)
Contract holder tax		
Tax on contract holder funds – current year	**(291)**	(364)
Tax attributable to cell captive owners	**11**	70
	2 937	2 164

Tax rate reconciliation	2017 %	2016 %
Tax calculated at standard rate of South African tax on earnings	**28.0**	28.0
Capital gains tax	**1.8**	4.9
Prior year adjustments	**4.5**	(0.7)
Taxation on contract holder funds	**14.9**	0.8
Foreign tax differential	**(0.6)**	(1.3)
Non-taxable income	**(13.8)**	(1.0)
Non-deductible expenses	**4.6**	2.2
Tax losses for which no deferred tax asset was recognised	**9.9**	5.9
Cell captive tax – to be recovered from cell owners	**15.5**	14.5
Other	**0.2**	(3.5)
Effective rate	**65.0**	49.8

* During the current period the cell captive business increased due to new cells being added, which resulted in an increase to income tax.

		2017 Rm	2016 Rm
28	**CASH FLOW FROM OPERATING ACTIVITIES**		
28.1	**Cash utilised in operations**		
	Profit before tax	4 518	4 342
	Adjusted for		
	Items disclosed elsewhere		
	Dividends received	(4 010)	(4 122)
	Interest received	(13 705)	(12 345)
	Finance costs	1 023	937
	Non-cash-flow items		
	Share of losses/(profits) of associates	121	(18)
	Net realised and fair value gains	(183)	(11 824)
	Fair value adjustment to policy liabilities	6 747	16 205
	Fair value adjustment to collective investment scheme liabilities	688	(153)
	Depreciation and amortisation expenses	1 151	1 246
	Impairment charges and bad debts written off	569	69
	Deferred acquisition costs movement	387	289
	Share-based payments and other employee benefit expenses	705	169
	Provisions	17	(37)
	Reinsurance assets and liabilities	(2 267)	(331)
	Deferred revenue liability movements	(93)	(57)
	Changes in operating assets and liabilities (excluding effect of acquisitions and exchange rate differences on consolidation)		
	Net insurance and investment liabilities	(2 068)	(2 626)
	Intangible assets related to insurance and investment contracts	(396)	(416)
	Investment properties	(148)	(349)
	Properties under development	76	143
	Financial assets and liabilities	(5 546)	6 553
	Loans and receivables	129	508
	Insurance and other receivables	(144)	(414)
	Employee benefit assets and obligations	(816)	(490)
	Reinsurance assets and liabilities	706	(1 398)
	Other operating liabilities	(163)	379
	Cash utilised in operations	(12 702)	(3 740)
28.2	**Income tax paid**		
	Due at beginning	(3 028)	(3 865)
	Charged to income statement	(2 937)	(2 164)
	Charged directly to other comprehensive income	(32)	(16)
	Due at end	2 534	3 028
		(3 463)	(3 017)
28.3	**Interest paid**		
	Redeemable preference shares	(113)	(110)
	Unsecured subordinated call notes	(351)	(313)
	Cost of carry positions	(408)	(346)
	Other	(119)	(99)
		(991)	(868)
28.4	**Liabilities arising from financing activities**		
	Due at beginning	13 064	14 943
	Repayment of borrowings	(7 423)	(7 418)
	Proceeds from borrowings	7 973	5 278
	Subordinated call notes issued	–	1 250
	Subordinated call notes repaid	–	(1 000)
	Accrued interest	988	937
	Interest paid	(991)	(868)
	Fair value movement	2	(41)
	Other	(14)	(17)
	Due at end	13 599	13 064

29 BUSINESS COMBINATIONS

Business combinations for the year ended 30 June 2017

There were no significant business combinations during the current year. Goodwill and customer relationships to the value of R11 million each were recognised due to a small acquisition.

Business combinations for the year ended 30 June 2016

There were no significant business combinations during the 2016 year. Customer relationships to the value of R18 million was recognised due to small acquisitions. None of the business combinations that occurred resulted in the recognition of goodwill.

30 RELATED PARTY TRANSACTIONS

30.1 Major shareholders and group companies

MMI Holdings Ltd is the ultimate holding company in the group. By virtue of its shareholding of 25% in MMI Holdings Ltd, RMI has significant influence over the group. The remaining shares are widely held by public and non-public shareholders; refer to the shareholder profile.

KTH is also considered to be a related party by virtue of its role as the group's broad-based black economic empowerment (B-BBEE) partner.

Apart from the shareholders' roles as related parties discussed above, no other MMI Holdings Ltd shareholders have a significant influence and thus no other shareholder is a related party.

Significant subsidiaries of the group are listed in Annexure A. Details of the associates of the group are contained in note 5 and Annexure B. Details of joint ventures of the group are contained in note 5.

Various collective investment schemes in which the group invests are defined as subsidiaries as the group controls them in terms of IFRS 10; these are listed in Annexure A. Collective investment schemes over which the group 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 group are defined as the executive and non-executive directors. It is not considered necessary to disclose details of key management family members and the separate entities that they influence or control. To the extent that specific transactions have occurred between the group 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.

30.2 Transactions with directors and key management personnel and their families

Remuneration is paid to executive directors and key management personnel of the group, as well as to non-executive directors (in the form of fees). Transactions with directors are disclosed in the corporate governance report and in the remuneration report.

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

	2017 Rm	2016 Rm
Salaries and other short-term employee benefits	**14**	17
Post-employment benefits	**1**	1
Termination benefits	**11**	–
Share-based payments	**27**	13
Directors' fees	**28**	16
	81	47

The group executive directors are members of the staff pension schemes, the details of which are in note 14.1.

The executive directors participate in the group's long-term retention schemes, the details of which are in note 14.2.

30 RELATED PARTY TRANSACTIONS *continued*

30.2 Transactions with directors and key management personnel and their families *continued*

Aggregate details of insurance and investment transactions between MMI Holdings Ltd, any subsidiary and key management personnel and their families are as follows:

	2017		2016	
	Insurance Rm	Investment Rm	Insurance Rm	Investment Rm
Fund value	**4**	**213**	5	256
Aggregate life and disability cover	**85**	**N/A**	98	N/A
Deposits/premiums for the year	**1**	**33**	1	7
Withdrawals/claims for the year	**(2)**	**(83)**	–	(4)

In aggregate, the group earned fees and charges totalling R0.7 million (2016: R1 million) on the insurance and investment products set out above.

30.3 Broad-based black economic empowerment (B-BBEE) partner

The group's broad-based black economic empowerment partner, KTH, has an interest of 7.1% (2016: 7.1%) in MMI Holdings Ltd. The group has entered into the following transactions with KTH:

- MMI Holdings Ltd issued preference shares to KTH as disclosed in note 11.2.1.
- In the prior year KTH had a 51% holding in C Shell 448 (Pty) Ltd (C Shell), then an associate of MMI. The group acquired all the shares held in C Shell in the current year.
- KTH has certain strategic empowerment holdings in the group. Refer to the directors' report for more details.
- Dividends of R39.5 million (2016: R41.9 million) were paid to KTH on the A3 MMI Holdings Ltd preference shares. Dividends of R8 million (2016: R5 million) were paid to KTH on the MHC "A" ordinary shares. The group acquired the shares held in MHC in June 2017.

30.4 Contract administration

Certain companies in the group carry out third-party contract and other administration activities for other related companies in the group. These transactions are entered into at market-related rates. These fees are eliminated on consolidation.

30.5 Transactions with associates

Transactions with associates relate to loans advanced and preference share investments (refer to note 6.4).

30.6 Transactions with significant shareholders

MMI Holdings Ltd dividend declarations:

R369 million of the ordinary dividends declared by MMI Holdings Ltd in September 2016 (R362 million of the ordinary dividends declared in September 2015) and R261 million of the ordinary dividends declared in March 2017 (R261 million of the ordinary dividends declared in March 2016) were attributable to RMI. Another R369 million will be provided for during the 2018 financial year (as part of the dividends declared in September 2017).

30.7 Post-employment benefit plans

Refer to note 14 for details of the group's employee benefit plans.

		2017 Rm	2016 Rm
31	**CAPITAL AND LEASE COMMITMENTS**		
	Capital commitments		
	Authorised but not contracted	294	13
	Authorised and contracted	–	2
		294	15
	The above commitments, which are in respect of computer software, computer equipment, vehicles, furniture, sponsorships, promotions and new business opportunities, will be financed from internal sources. The group has also made capital commitments of R670 million for 2019 for the India, aYo and African Bank initiatives.		
	Lease commitments		
	The minimum future lease payments payable under non-cancellable operating leases on property and equipment:		
	Less than 1 year	25	42
	Between 1 and 5 years	25	30
		50	72
	The minimum future lease payments receivable under non-cancellable operating leases on investment properties:		
	Less than 1 year	452	494
	Between 1 and 5 years	965	978
	More than 5 years	404	440
		1 821	1 912

32 **CONTINGENT LIABILITIES**

ACC POLICY
Annex D18

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

Uncertain tax position

Metropolitan Lesotho (ML) objections submitted to an adjusted assessments raised by the Lesotho Revenue Authority in respect of the 2009 to 2016 years of assessment were disallowed. ML submitted appeals and the matter is due to be heard by the Revenue Appeals Tribunal. The objection relates to the interpretation of tax categorisation of ML's products as well as the tax calculation basis of a non-composite life insurer. Given that the matter is still subject to the resolution of the objection process, the potential financial impact has not been disclosed.

33 **EVENTS AFTER THE REPORTING PERIOD**

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

34 FINANCIAL RISK MANAGEMENT

The risk philosophy, structures and management processes of the group 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 group simultaneously seeks to achieve higher levels of responsibility to all stakeholders. The group 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.

Short-term insurance risk: Short-term insurance risk is the risk of unexpected underwriting losses in respect of existing business as well as new business expected to be written over the following 12 months. Underwriting losses could result from adverse claims, expenses, insufficient pricing, inadequate reserving, or through inefficient mitigation strategies such as inadequate or non-adherence to underwriting guidelines.

Liquidity risk: Liquidity risk is the risk that the group, 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 group, or because of the possibility that the group could be required to pay its liabilities earlier than expected as a result of unexpected policyholder behaviour. This might occur in circumstances where the group'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 group.

35 CAPITAL MANAGEMENT

35.1 Capital management objectives

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

- To manage the levels of capital across the group to keep these in line with the economic capital requirement for each operating company and division.
- To ensure that the level of capital reflects and is consistent with the group'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 group'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 group's return on EV.
- To ensure that there is sufficient capital available for profitable business growth.

35.2 Capital management framework

The capital management framework rests on the following three pillars:

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

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

35.3 Overview of capital management developments

35.3.1 Capital held in the holding company

MMI Holdings Ltd (ie the non-operating holding company) serves as the vehicle to facilitate the efficient deployment of capital to the various operating subsidiaries in the group. The holding company therefore retains sufficient capital to protect the brand and facilitate growth plans as formulated in the business strategy. The capital resources held by the holding company also reflects the reality that the group cannot rely on a large parent (or strategic partner) to provide additional capital during times of need.

35.3.2 Capital allocated to the operating subsidiaries

The operating subsidiaries of the group hold sufficient capital as required for their particular business operations. The capital allocation therefore reflects the economic capital requirement of the particular subsidiary and satisfies the risk appetite as approved by the relevant boards of directors. The economic capital requirement represents a long-term view (ie it looks through the economic cycle).

The economic capital requirement for the group's main life insurance subsidiary, ie MMIGL, is quantified using an internal capital projection model. The internal capital model uses stochastic modelling techniques to project the economic capital requirements for five years. The required capital level of the life insurance subsidiary reflects the approved risk appetite, which 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.

For other life insurance companies in the group, a multiple of the statutory CAR is used to determine the economic capital requirement.

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

The amounts of capital held by the group's operating subsidiaries are regularly compared to their economic capital requirements and the intention is to manage the actual capital levels to be in line with the economic capital requirements.

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 preference shares, as well as the consolidation of life insurance and other licenses in the group. All dividends and other capital reductions are approved by the various boards, as well as by the statutory actuary of MMIGL.

35 CAPITAL MANAGEMENT *continued*

35.3 Overview of capital management developments *continued*

35.3.3 Statutory capital requirement

All of the life insurance subsidiaries in the group must hold allowable capital of not less than the minimum prescribed statutory CAR. MMI's only restrictions on its ability to access or use its assets and settle its liabilities are statutory restrictions. The prescribed minimum capital is available to meet obligations (and not available for distribution to equity holders) in the event of substantial adverse unexpected deviations from the best-estimate actuarial valuation assumptions.

The statutory surplus and CAR are determined in accordance with the requirements of the FSB and the standards and practice notes as issued by ASSA. 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. Although CAR is only a statutory requirement for South African life insurance companies, it is also applied to the non-South African life insurance companies in the group as a measure of prudence. 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; and
- the risk that long-term insurance and financial assumptions are not realised.

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

MMI 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 MMI 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.

As part of the pre-application qualifying criteria process the Regulator has indicated that changes to the Guardrisk internal model are required before progression to the final application stage is possible. Following consultation between the parties it was agreed to focus effort on attaining solvency under the Standard Formula before SAM is implemented.

Subsequently, Guardrisk Insurance has focused effort and resources on embedding and refining the SAM Standard Formula for calculating Regulatory Capital. Despite some headwinds which included changes to the calculation methodology from the Regulator and required changes to the applied methodology suggested by assurance providers, solvency for the Guardrisk Insurance licence under the SAM Standard Formula was achieved as at 31 March 2017 (the Guardrisk Life licence has remained in a solvent position under SAM over the financial period).

Guardrisk management intends to revisit the business case underpinning the internal model application and will consider the way forward in due course. The Guardrisk team (Life and Non-Life) continues to pursue various management actions intended to further improve the regulatory solvency position using the SAM Standard Formula in preparation for SAM implementation.

35 CAPITAL MANAGEMENT *continued*

35.3 Overview of capital management developments *continued*

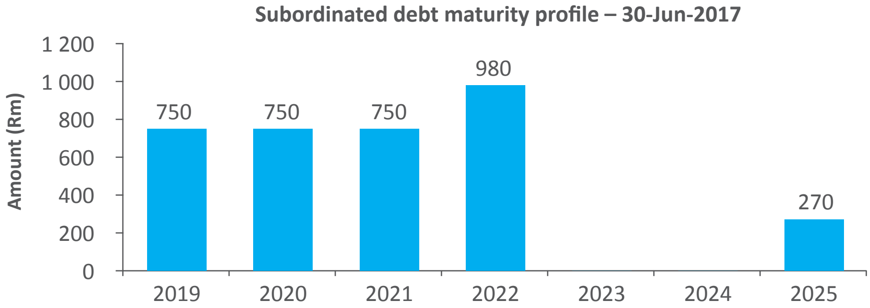
35.3.5 Issuance of subordinated debt

The table below shows a summary of the MMIGL subordinated, unsecured callable notes currently in issue at 30 June 2017:

MMI Group Ltd subordinated debt Instrument code	Amount issued (Rm)	Coupon rate	Tenor (years)	Date issued	Coupon type
MMIG01	750	3-month JIBAR + 1.46%	5.0	Mar-14	Floating
MMIG02	750	10.07%	7.0	Mar-14	Fixed
MMIG03	750	3-month JIBAR + 2.30%	5.5	Dec-14	Floating
MMIG04	270	11.30%	10.0	Aug-15	Fixed
MMIG05	980	10.86%	7.0	Aug-15	Fixed

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

The graph below shows the maturity profile of MMIGL's subordinated debt:



35.4 Sources of capital utilised

The table below analyses the sources of shareholders' capital utilised by MMIGL at 30 June:

MMIGL Regulatory capital	2017 Rm	2017 %	2016 Rm	2016 %
Tier 1	11 894	77	12 698	78
– core tier 1 (ie 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

35.5 Regulatory capital position

At 30 June 2017, MMIGL's CAR was covered 2.7 times (2016: 3.0 times) by the excess of assets over liabilities (on the prescribed statutory valuation basis).

MMIGL Regulatory capital position	2017 Rm	2016 Rm
Statutory excess over liabilities	15 496	16 255
CAR	5 714	5 351
CAR cover (times)	2.7	3.0

MMIGL'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 June 2016.
- Investment risk increased from a longer projection term for upper market business, lower funding levels, and moving from yield-up to yield-down.
- Credit risk increase due to the sovereign credit downgrade, and including concentration risk for ex-Met business. Partially offset by SAP104 change.
- Release of discretionary margins against mortality risk.

35 CAPITAL MANAGEMENT *continued*

35.6 Economic capital

The economic capital requirement for MMIGL is based on an internal capital projection model (using stochastic modelling techniques), while the other life insurance companies use a multiple of the statutory CAR to determine the economic capital requirement. The strategic operating subsidiaries of MMI Holdings Ltd hold sufficient capital as required for the particular business operations. The capital allocation therefore reflects the economic capital requirement of the particular subsidiary 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 (ie to look through the economic cycle).

Given the delay in the approval of the Guardrisk internal model and the resulting uncertainty around the ultimate impact of SAM on future capital requirements and capital management, MMI deems it prudent at this stage to keep a capital buffer. MMI also has a number of strategic initiatives that it is pursuing which will require capital. Based on future capital projections, the group is comfortable that the level of the capital buffer, after the payment of the final ordinary dividends, should be sufficient to meet future strategic requirements and the potential impact of SAM.

35.7 Credit ratings

MMI 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 MMI Group Ltd to Baa2. On 15 June 2017 Moody's affirmed MMIGL's national scale ratings as per the table below:

Entity	Type	Global scale	National scale
MMI			
MMIGL	Insurer financial strength	Baa2	Aaa.za
MMIGL subordinated debt	N/A	Ba1	Aa2.za
Guardrisk			
Guardrisk Insurance Company Ltd	Insurer financial strength	Baa3	Aaa.za
Guardrisk Life Ltd	Insurer financial strength	Baa3	Aaa.za
Guardrisk International Ltd PCC	Insurer financial strength	Baa3	N/A

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."*

With regards to Guardrisk, Moody's commented that *"The Baa3, negative, global scale insurance financial strength (IFS) ratings assigned to entities in the Guardrisk group – including the Aaa.za national scale IFS ratings assigned to the South African entities – reflects (i) its good market position as the largest cell captive insurer in the South African market, (ii) low underwriting risk due to its fee based model, (iii) diverse product mix across life insurance and short-tailed non-life insurance lines, and (iv) strong profitability."*

36 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 Rm	Investment with DPF Rm	Investment Rm	Total Rm
Contracts with DPF	43 320	23 910	375	67 605
Individual contracts with DPF	35 097	6 064	356	41 517
Smoothed bonus business	25 921	6 064	356	32 341
Conventional with-profit business	9 176	–	–	9 176
Group contracts with DPF	8 223	17 846	19	26 088
Smoothed bonus business	–	16 695	–	16 695
Smoothed bonus business – fully vesting	–	896	–	896
With-profit annuity business	8 223	255	19	8 497
Market-related business	18 305	157	212 258	230 720
Individual market-related business	16 750	157	140 255	157 162
Group market-related business	1 555	–	72 003	73 558
Other business	42 602	208	11 591	54 401
Non-profit annuity business	33 719	–	1 870	35 589
Guaranteed endowments	30	–	9 623	9 653
Other non-profit business	8 853	208	98	9 159
Subtotal	104 227	24 275	224 224	352 726
Liabilities in cell captive and short-term business	10 015	63	9 210	19 288
Total contract holder liabilities	114 242	24 338	233 434	372 014

2016	Insurance Rm	Investment with DPF Rm	Investment Rm	Total Rm
Contracts with DPF	44 544	24 797	32	69 373
Individual contracts with DPF	37 223	6 519	12	43 754
Smoothed bonus business	27 833	6 519	12	34 364
Conventional with-profit business	9 390	–	–	9 390
Group contracts with DPF	7 321	18 278	20	25 619
Smoothed bonus business	–	17 031	–	17 031
Smoothed bonus business – fully vesting	–	893	–	893
With-profit annuity business	7 321	354	20	7 695
Market-related business	20 030	164	210 243	230 437
Individual market-related business	18 561	164	139 808	158 533
Group market-related business	1 469	–	70 435	71 904
Other business	40 553	172	11 001	51 726
Non-profit annuity business	32 753	–	2 566	35 319
Guaranteed endowments	117	–	8 408	8 525
Structured products	–	–	3	3
Other non-profit business	7 683	172	24	7 879
Subtotal	105 127	25 133	221 276	351 536
Liabilities in cell captive and short-term business	8 966	62	11 514	20 542
Total contract holder liabilities	114 093	25 195	232 790	372 078

36 INSURANCE AND INVESTMENT BUSINESS *continued*

36.1 Classes of long-term insurance and investment business

The different classes of business are discussed below:

Contracts with 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 FSB 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, MMIGL has issued PPFM documents on all discretionary participation portfolios detailing the investment strategies and bonus philosophies of the portfolios. In addition, management reports to the discretionary participation committee (a sub-committee of the MMI Holdings Ltd board) on an annual basis with regard to compliance with the PPFM.
- For smoothed bonus business, 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. A positive BSA 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 actuaries are satisfied that, if the market values of assets do not recover, future bonuses will be reduced to the extent necessary. The group is exposed to market and liquidity 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).
- 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 group holds the assets on which unit prices are based in accordance with policy terms and conditions.
- Policyholders carry the investment risk; however, the group 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 group'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.

36 INSURANCE AND INVESTMENT BUSINESS *continued*

36.1 Classes of long-term insurance and investment business *continued*

Market-related business *continued*

- 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 generally fixed in nominal or inflation-adjusted terms 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+.

Other non-profit business

- These include long-term regular premium insurance contracts of varying duration.
- The market risk on these contracts is mitigated through an actively managed combination of interest rate securities and interest rate derivatives. Any residual mismatch profit or loss as well as any credit risk for these policies is borne by the shareholder.

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. Some products also provide minimum benefits on early duration deaths and on early terminations.
- In addition, all DPF business has a minimum death or maturity value equal to the vested benefits.
- 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 guarantees are much less significant than the liabilities in respect of minimum guaranteed maturity values and minimum vested benefits.
- On inflation-linked annuities a minimum annual increase rate is generally applicable, for instance as a consequence of regulatory requirements whereby pension income cannot reduce in nominal terms.
- 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 APN 110 – Allowance for embedded investment derivatives. Refer to note 10.
- 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.

36.2 Long-term 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.

36 INSURANCE AND INVESTMENT BUSINESS *continued*

36.2 Long-term insurance risk *continued*

Long-term 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 MMI board, MMI Audit Committee and the FSB. The Actuarial Committee supports the statutory actuary in his responsibility for the oversight of insurance risk. The Actuarial Committee has been appointed by the MMI Holdings Ltd 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, retrenchment 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 adverse circumstances, actual claims and benefits may exceed the liabilities held. 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 group's risk appetite.

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

36.2.1 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 actuaries 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 any 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 change 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 of a large number of claims from a single event or in 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 group 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 that these are reliable indicators of the risk exposure.
  - A guarantee period shorter than the policy term applies to most risk business, and enables the group 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.

36 INSURANCE AND INVESTMENT BUSINESS *continued*

36.2 Long-term insurance risk *continued*

36.2.1 Demographic risks *continued*

- 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.
- 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 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. MMIGL'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 table below shows the concentration of individual insurance contract benefits (gross and net of reinsurance) by sum insured at risk:

	2017			2016		
Sum insured per benefit (Rands)	**Number of benefits**	**Amount (gross) Rm**	**Amount (net) Rm**	**Number of benefits**	**Amount (gross) Rm**	**Amount (net) Rm**
0 – 20 000	**3 282 951**	**23 145**	**21 513**	9 224 934	73 755	21 602
20 001 – 50 000	**1 029 698**	**31 682**	**30 194**	1 824 857	58 641	29 983
50 001 – 100 000	**316 720**	**21 917**	**18 853**	778 090	55 374	18 968
100 001 – 200 000	**159 305**	**26 354**	**19 896**	406 752	62 122	21 744
200 001 – 500 000	**231 963**	**82 909**	**54 099**	353 391	120 849	56 408
500 001 – 1 000 000	**241 880**	**132 388**	**95 483**	263 585	146 265	94 906
> 1 000 000	**635 689**	**927 946**	**517 617**	653 429	874 050	485 997
Subtotal	**5 898 206**	**1 246 341**	**757 655**	13 505 038	1 391 056	729 608
Cell captive business	**4 967 867**	**372 960**	**104 265**	4 048 428	225 419	64 756
Total	**10 866 073**	**1 619 301**	**861 920**	17 553 466	1 616 475	794 364

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.

36 **INSURANCE AND INVESTMENT BUSINESS** *continued*

36.2 **Long-term insurance risk** *continued*

36.2.1 ***Demographic risks*** *continued*

- 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.
  - The products are mostly simple designs with a one-year renewable term. In most cases the products are compulsory for all employees although it has become more common recently to provide members with a degree of choice when selecting risk benefits.
  - 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:
    - o Region
    - o Salary structure
    - o Gender structure
    - o 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 group 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, eg 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	**9 190**	8 661
1 001 – 5 000	**284**	320
> 5 000	**131**	122
Subtotal	**9 605**	9 103
Cell captive business	**79**	74
Total	**9 684**	9 177

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. With-profit annuities are also offered whereby the policyholder shares in the experience of a predefined group of policyholders. The longevity 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.

36 INSURANCE AND INVESTMENT BUSINESS *continued*

36.2 Long-term insurance risk *continued*

36.2.1 Demographic risks *continued*

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

Annuity amount per year (Rands)	2017 Number of annuitants	2017 Total amount per year Rm	2016 Number of annuitants	2016 Total amount per year Rm
0 – 10 000	**76 579**	**328**	80 333	340
10 001 – 50 000	**48 020**	**1 089**	48 046	1 080
50 001 – 100 000	**11 218**	**783**	10 915	761
100 001 – 200 000	**5 708**	**783**	5 329	732
> 200 000	**3 224**	**1 184**	2 884	1 038
Subtotal	**144 749**		147 507	
Cell captive business	**1 747**	**101**	1 589	72
Total	**146 496**		149 096	

Permanent health insurance business

The group 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. Claims are reviewed at inception to determine eligibility. Ongoing claims in payment are also reviewed annually to ensure claimants still qualify and rehabilitation is managed and encouraged.

36.2.2 Contract persistency risk

- Persistency risk is the risk of adverse change in the value of insurance contracts due to adverse lapse, surrender and paid-up experience, or to a change in the expected exercise rates of such policyholder options.
- 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, any 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 is usually the case for risk policies and normally happens early on in the term of recurring premium savings 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 group'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 programmes.
- 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.

36 INSURANCE AND INVESTMENT BUSINESS *continued*

36.2 Long-term insurance risk *continued*

36.2.3 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. MMI 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 MMI has a risk seeking attitude. When writing retrenchment risk, MMI carefully considers the design of benefits, benefit term, premium guarantees as well as the expected diversification across employers and industries.

36.2.4 Expense risk

There is a risk that the group 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.

Budget controls are in place to mitigate this risk. The group 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.

36.2.5 Business volume risk

There is a risk that the group 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 is variable and relates 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 group, such as health insurance and short-term insurance.

36.3 Short-term insurance risk

Short-term insurance risk is the risk of unexpected underwriting losses in respect of existing business as well as new business expected to be written over the following 12 months. Underwriting losses could result from adverse claims, expenses, insufficient pricing, inadequate reserving, or through inefficient mitigation strategies like inadequate or non-adherence to underwriting guidelines.

The definitions of the risks that compromise short-term insurance risk are presented below:

- Premium risk: the risk of financial loss arising from fluctuations in timing, frequency and severity of insured events for business to be written in the next 12 months and unexpired risks on existing contracts. Premium risk includes the risk that premium provisions turn out to be insufficient to compensate claims or the need to increase these provisions.
- Reserve risk: the risk of adverse change in the value of insurance obligations arising from fluctuations in timing and amounts of claim settlements.
- Lapse risk: the risk of financial loss, or of adverse change in the value of insurance obligations, resulting from changes in the level or volatility of the rates of policy lapses, terminations, renewals and surrenders.
- Catastrophe risk: the risk that a single event, or series of events, of major magnitude, usually over a short period (often 72 hours), leads to a financial loss, or of an adverse change in the value of insurance liabilities. Catastrophe losses are the losses that arise from catastrophe risk and these include:
  - Natural catastrophes which includes anything which is caused by a natural process, including earthquakes and hail storms.
  - Man-made catastrophes which are events that arise as a consequence of actions by humans.

36 INSURANCE AND INVESTMENT BUSINESS *continued*

36.3 Short-term insurance risk *continued*

The group conducts business in different classes of short-term insurance and write these either as personal or commercial contracts. The following types of traditional contracts are written (refer to note 37 for cell captive classes of business):

- Motor: Provides policy benefits if an event, contemplated in the contract as a risk relating to the possession, use or ownership of a motor vehicle occurs.
- Property: Provides policy benefits for loss of or damage relating to the possession, use, or ownership of moveable and immovable property.
- Accident and Health: Provides policy benefits if a disability event, health event or death event occurs.
- Liability: Provides policy benefits relating to the incurring of a liability, otherwise than as part of a policy relating to a risk more specifically provided for elsewhere. This type of contract typically includes inter alia public liability, product recall and malicious product tampering.
- Transportation: Provides policy benefits relating to the possession, use or ownership of a vessel, aircraft or other craft or for the conveyance of persons or goods by air, space, land or water, or to the storage, treatment or handling of goods so conveyed or to be so conveyed.
- Miscellaneous: Provides policy benefits relating to any matter not otherwise provided for. This type of contract typically includes inter alia legal expense insurance.

Premiums and claims relating to short-term insurance for the group are as follows:

	2017 Rm	2016 Rm
Premiums	**8 661**	8 144
Claims	**5 077**	5 293

37 GUARDRISK

Introduction

MMI Holdings Ltd acquired 100% of Guardrisk on 3 March 2014. Guardrisk has to a large degree aligned all its risk management processes to that of the group and will continue to improve alignment where necessary.

Nature of business

Guardrisk is principally engaged in both short-term and long-term insurance and related insurance management activities. It transacts in all classes of short-term insurance business, primarily as a cell captive and alternative risk transfer insurer, focusing on both the corporate and retail market. Guardrisk was also South Africa's first cell captive long-term insurer, and is licensed to underwrite assistance, disability, fund, health, life and sinking fund policies (ie endowments), also primarily as a cell captive and alternative risk transfer insurer.

There are currently two distinct types of cell captive arrangements, being:

- "First-party" cell arrangements where the risks that are being insured relate to the cell shareholder's own operations or operations within the cell shareholder's group of companies; and
- "Third-party" cell arrangements where the cell shareholder provides the opportunity to its own client base to purchase branded insurance products or the on selling of insurance products through contracted independent intermediaries. For third-party arrangements the cell shareholders agreement meets the definition of a reinsurance contract and is accounted for as such.

The "promoter cell" is the portion of the business where Guardrisk transacts for its own account and therefore excludes the net results and all assets and liabilities of the first and third-party cell arrangements.

All agreements for services provided in respect of third-party arrangements are transacted between Guardrisk and the third party. All transactions with third parties and policyholders are recorded in the income statement, with the third-party cell owner being a reinsurer of the net result. The impact of this application on the group's financial statements is that the results of the cell captive arrangements have no direct impact on the group's earnings, except for fee income earned by the promoter cell.

In a limited number of cases, the promoter cell acts as reinsurer for certain cells. The promoter generally retains a portion of the risk related to that book of business and further reinsures the remainder of the risk to external reinsurers. The promoter cell earns underwriting profits on the risk retained.

37 GUARDRISK *continued*

Nature of business *continued*

The group's income statement includes several income and expense items related to insurance business written through cell arrangements. In particular all transactions relating to third-party cell arrangements are recorded. However, these transactions are transferred back to the third-party cell owner and therefore the net impact on the group's earnings is limited to the net result of transactions relating to the promoter cell only. Assets and liabilities from cell captive arrangements are recognised in the statement of financial position. Except for the impact of contingency policies, as well as the fees earned by the promoter cell and income on the promoter cell's own assets, cell arrangements have no impact on the group's earnings.

A contingency policy is an insurance contract to provide entry-level insurance cover for first-party risks. These policies provide for payment of a performance bonus to the insured based on claims experience and related expenses at the end of the policy period.

Risk management

The Guardrisk business is exposed to insurance risk. Underwriting limits are in place to enforce appropriate risk selection criteria. For example, Guardrisk has the right to refuse to renew individual policies, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. Insurance contracts also entitle Guardrisk to pursue third parties for payment of some or all costs (eg subrogation).

The underwriting strategy is directed at a portfolio of underwritten risks that are well diversified in terms of risk, industry and geography.

Cell captive arrangements

The cell owner shareholders' agreements protect the group from losses arising from business conducted in cells due to the recapitalisation clause. This solvency risk is measured on a monthly basis and, if required, additional capital is requested from the cell owners. The group's exposure to risk on this business is limited to the credit risk of the cell owner, if a cell owner does not recapitalise in terms of the cell owner shareholders agreement, with respect to third-party cell arrangements.

In addition, reinsurance agreements are concluded to minimise the solvency risk (refer to Reinsurance section below).

Contingency policy business

This business is usually written for a one-year period with the policies covering multiple risks. The risks underwritten are those of a corporate entity (ie first-party business) and are generally either in respect of primary layers of the corporate's insurance programme or for risks that are difficult to insure in a traditional insurance product. The corporate insured in a contingency policy is entitled to a share in the underwriting result if there is favourable claims experience.

Actuarial input is received to establish suitable policy and cover limits as well as retention limits for reinsurance where applicable. Reinsurance is generally structured above the layer provided by the contingency policy.

There is an aggregate excess of loss treaty in place for all contingency policies. This reinsurance treaty is currently arranged for a limit of R15 million each and every loss in excess of R1 million each and every loss up to R5 million in the annual aggregate.

Risk participation with cell shareholders

Guardrisk, through the promoter cell, shares in the emerging underwriting experience of selected cell arrangements. Guardrisk carefully evaluates all retention of risks in terms of statistical and underwriting disciplines, as well as specific and limited board mandates for each selected cell participation.

Terms and conditions of non-life insurance contracts

Non-life insurance business is transacted across all eight categories of permissible authorisation classes as defined by the Short-term Insurance Act, 53 of 1998. The terms and conditions of Guardrisk's insurance contracts are in accordance with its licence conditions as set out below.

Insurance is provided to corporate clients (through first-party cells and contingency policies) and to the general public (through third-party cell owners). Insurance contracts are issued for monthly, annual and multi-year periods and include the following classes of risk:

Property – Provides policy benefits for an event relating to the use, ownership, loss of or damage to movable or immovable property and includes a reinsurance policy in respect of such policy.

37 GUARDRISK *continued*

Risk management *continued*

Accident and Health – Provides policy benefits if a disability event, health event or death event occurs and includes a reinsurance policy in respect of such a policy.

Motor – Provides policy benefits if an event, contemplated in the contract as a risk relating to the possession, use or ownership of a motor vehicle occurs and includes a reinsurance policy in respect of such policy.

Engineering – Provides policy benefits for risks relating to the possession, use or ownership of machinery or equipment other than a motor vehicle, in the carrying on of a business, the erection of buildings or other structures or the undertaking of other works or the installation of machinery or equipment and includes a reinsurance policy in respect of such a policy.

Guarantee – Provides policy benefits relating to the failure of a person to discharge an obligation when it occurs and includes a reinsurance policy in respect of such a policy.

Liability – Provides policy benefits relating to the incurring of a liability, otherwise than as part of a policy relating to a risk more specifically provided for elsewhere and includes a reinsurance policy in respect of such a policy. This type of contract typically includes inter alia public liability, product recall and malicious product tampering.

Transport – Provides policy benefits relating to the possession, use or ownership of a vessel, aircraft or other craft or for the conveyance of persons or goods by air, space, land or water, or to the storage, treatment or handling of goods so conveyed or to be so conveyed; and includes a reinsurance policy in respect of such a policy.

Miscellaneous – Provides policy benefits relating to any matter not otherwise provided for and includes a reinsurance policy in respect of such a policy. This type of contract typically includes inter alia legal expense insurance.

Multi-year risk insurance programmes are insurance policies where maximum cover is provided at inception of the policy with premiums payable at inception and in future periods. The group's exposure to risk on this business (relating to first-party cell arrangements and contingency policies) is limited to the credit risk of the policyholder. The credit risk is substantially reinsured by a panel of participating reinsurers.

Terms and conditions of life insurance contracts

Short-term life insurance contracts – These contracts generally consist of personal accident cover providing death, disability and retrenchment benefits in the event of an accident. Benefit payments are fixed and payable on the occurrence of the specified insurance event.

Long-term insurance contracts with fixed and guaranteed terms – These contracts insure events associated with human life (eg credit life or health insurance contracts) over a long duration.

Long-term insurance contracts without fixed terms – These contracts insure events associated with human life (eg post-retirement medical aid and health insurance contracts) over a long duration.

General risk overview

Guardrisk has risk and investment committees. These committees consider both underwriting and counterparty exposures in order to minimise risks of non-performance on portfolios as well as to clarify risk obligations with clients. The product management committee also reviews the appropriateness and viability of major product development initiatives to confirm regulatory, legal, tax and accounting standards.

For each cell or policy accepted by Guardrisk, an actuarial analysis is undertaken to determine major exposures to insurance risk. This analysis varies in extent and detail depending on the significance of the new cell facility. For significant down-side risk this analysis includes stochastic modelling of past claims and the projection, at different confidence levels, of future scenarios.

Each new risk is considered by the underwriting and actuarial teams and where necessary adjustments are made to the theoretical premium to take into account competition, the underwriting cycle, reinsurance and capital requirements.

37 **GUARDRISK** *continued*

Risk management *continued*

Reinsurance

The key objective when placing reinsurance is to optimise capital requirements and protection of the retained lines of both Guardrisk and the cell owners.

The reinsurers selected are in accordance with Guardrisk's reinsurance vetting procedures. These are presented to and approved by the Guardrisk board. These procedures include limiting individual cessions and accumulations per reinsurer in accordance with their credit rating.

Other than sourcing capacity for both first and third-party business, reinsurance is arranged to protect the net retention of the promoter on both a proportional and non-proportional basis. The net retention of both Guardrisk and the cells will determine the non-proportional programmes whereas estimated premium income and loss ratios determine retention on proportional programmes. The non-proportional reinsurance arrangements include per risk excess-of-loss, stop-loss and catastrophe coverage. Proportional reinsurance arrangements include quota share and surplus treaties.

Concentrations of insurance risk

Risks relating to the Guardrisk business are adequately spread across the major classes of insurance risk.

Credit risk

The Guardrisk business has exposure to credit risk (relating to financial assets, reinsurers' share of insurance liabilities, amounts due from reinsurers in respect of claims already paid, amounts due from insurance policyholders and amounts due from insurance intermediaries), which is the risk that a counterparty will be unable to pay amounts in full when due. A unique key area where the group is exposed to credit risk is with regards to the cell shareholders' obligation to restore solvency of cells when required.

The relationship between Guardrisk and its cell owner shareholders is governed by the cell owner shareholders agreement entered into between Guardrisk and the cell owner shareholder. This agreement determines that the cell owner shareholder has the obligation to restore any capital deficit in its cell on receipt of such a demand from Guardrisk. Guardrisk can demand recapitalisation of a cell in the event of the solvency ratio of the cell falling below the ratio required by the regulator or if the shareholders funds reflect a deficit. Claims of first and third-party cells will be paid in terms of the policy. If the cell is in a deficit position after the claim, a request will be made to recapitalise the cell. However, in the case of first-party cells, the claims are further limited to the policy limits.

This risk is managed by a detailed assessment of potential cell shareholders' creditworthiness based on the ability to meet the responsibility and obligations in terms of the shareholders agreement. Solvency of the cell is assessed monthly, to ensure that the cell shareholders have the ability to fund additional capital, if requested from them. The solvency of the cell and past requests that have been made to the cell owner to recapitalise the cell have been used as a basis to test impairment.

However, in the history of Guardrisk, there have never been any incidents of cell owner's or reinsurer's failure.

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

The group consolidates a number of collective investment schemes and fund of alternative funds as a result of exercising control over these schemes, and the MMI 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 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.

38 FINANCIAL RISK INHERENT IN CONSOLIDATED COLLECTIVE INVESTMENT SCHEMES AND FUND OF ALTERNATIVE FUNDS *continued*

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 Annexure B as Collective investment schemes and Investments in associates designated at fair value through income.

39 LIQUIDITY RISK

Liquidity risk governance

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

The executive Balance Sheet Management committee (executive BSM) is responsible for the group'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 group'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 group's exposure to policyholder behaviour, eg unanticipated benefit withdrawals or risk-related claims. The insurance and investment contract liabilities comprise 86% (2016: 86%) of the liabilities of the group. 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 the liabilities 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.

Conventional with-profit and smoothed bonus policyholder benefits

These benefits are determined mainly by reference to the policy fund values which reflect past contributions plus declared bonuses or the initial sum assured plus declared bonuses. The policy values, over time, move broadly in line with the value of underlying assets. Upon the contractual claim (maturity and risk benefit claim) 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 contractual claims are projected. 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 (ie a benefit payment before the contract maturity date), such value is not normally guaranteed but is determined at the group'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 contracts 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 (ie 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.

39 LIQUIDITY RISK *continued*

Liquidity risk management *continued*

Policyholder liabilities *continued*

Linked and market-related policyholder benefits

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 contracts do not expose the group to significant liquidity risk because the risk of liquidity losses, except those that relate to investment guarantees and risk benefit claims, is largely borne by 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 risks 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 take into account the relevant liquidity requirements. Examples of such contractual provisions include the payment of benefits *in specie*, or a provision for sufficient lag times between the termination notification and the payment of benefits.

For these contracts providing guaranteed annuity benefits all the liquidity risk that arises is borne by the group. 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 group are the cumulative convertible redeemable preference shares issued by MMI Holdings Ltd, the carry positions, the subordinated call notes issued by MMIGL and the cumulative redeemable preference shares issued by MMI Strategic Investments (Pty) Ltd.

The group 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 shareholder funds are invested in a diversified portfolio of liquid cash, floating rate instruments and interests in subsidiaries and or related entities. The investment mandate and guidelines that govern the investment of shareholder 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 acquisition activity 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 group's assets are fairly liquid in order to meet the liquidity needs of obligations if the group should be required to settle earlier than expected:

	2017		2016	
Financial asset liquidity	**%**	**Rm**	**%**	**Rm**
High[1]	**72**	**324 909**	70	317 693
Medium[2]	**23**	**106 391**	25	115 507
Low/illiquid[3]	**5**	**23 693**	5	24 079
Other assets not included above				
– non-current assets held for sale		**–**		470
– employee benefit assets		**410**		445
– accelerated rental income		**248**		229
– deferred income tax		**249**		279
Total assets		**455 900**		458 702

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).

39 **LIQUIDITY RISK** *continued*

Maturity profile of liabilities

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

2017 R million	Carrying value	Total	Open-ended[1]	0 to 1 year	1 to 5 years	5 to 10 years	> 10 years
Insurance contracts (DCFs)[2]	104 227	104 227	15 641	11 459	24 920	19 912	32 295
Linked (market-related) business							
Individual	16 780	16 780	1 187	1 334	3 856	3 738	6 665
Employee benefits	1 555	1 555	–	181	551	393	430
Smoothed bonus business							
Individual	25 976	25 976	1 153	3 648	7 615	6 009	7 551
Employee benefits	4	4	4	–	–	–	–
Conventional with-profit business	9 120	9 120	3 069	572	1 109	732	3 638
Non-profit business							
Individual	6 404	6 404	2 391	82	406	170	3 355
Employee benefits	2 387	2 387	208	1 299	347	260	273
Annuity business	42 001	42 001	7 629	4 343	11 036	8 610	10 383
Investment contracts with DPF (DCFs)[2]	24 275	24 275	19 245	749	2 102	1 185	994
Linked (market-related) business							
Individual	157	157	–	13	62	45	37
Smoothed bonus business							
Individual	6 064	6 064	1 402	715	1 976	1 090	881
Employee benefits	17 600	17 600	17 600	–	–	–	–
Non-profit business							
Individual	3	3	3	–	–	–	–
Employee benefits	196	196	196	–	–	–	–
Annuity business	255	255	44	21	64	50	76
Investment contracts (undiscounted cash flows)	224 224	226 315	112 442	4 639	17 528	9 727	81 979
Linked (market-related) business							
Individual	140 358	140 194	41 078	3 019	5 459	9 548	81 090
Employee benefits	72 271	72 271	71 191	14	66	111	889
Non-profit business							
Individual	9 706	11 817	151	992	10 673	1	–
Annuity business	1 889	2 033	22	614	1 330	67	–
Subtotal policyholder liabilities under insurance and investment contracts	352 726	354 817	147 328	16 847	44 550	30 824	115 268
Cell captive and short-term business	19 288						
Total policyholder liabilities under insurance and investment contracts	372 014	354 817	147 328	16 847	44 550	30 824	115 268
Financial liabilities designated at fair value through income	37 331	36 000	24 961	5 411	4 218	1 410	–
Collective investment scheme liabilities	24 961	24 961	24 961	–	–	–	–
Subordinated call notes	3 602	4 974	–	349	3 215	1 410	–
Carry positions	7 676	7 676	–	7 676	–	–	–
Preference shares	1 018	1 018	–	18	1 000	–	–
Other	74	74	–	71	3	–	–
Derivative financial instruments[3]	1 827						
Amortised cost	1 229	801	–	530	207	6	58
Cumulative redeemable convertible preference shares	261	299	–	299	–	–	–
Other	968	502	–	231	207	6	58
Reinsurance contract liabilities	1 368	968	–	968	–	–	–
Other payables at amortised cost[4]	12 520	12 520	–	12 295	225	–	–
Other liabilities[5]	6 363						
Total liabilities	432 652	405 106	172 289	36 051	49 200	32 240	115 326

39 LIQUIDITY RISK *continued*

Maturity profile of liabilities *continued*

Notes to the maturity profile of liabilities table:

[1] Open-ended liabilities are defined as:
– policies where the policyholder is entitled to the 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 (after deduction of surrender penalties). 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 DCFs, 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 10.
- 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:

- Collective investment scheme liabilities represent demand liabilities of scheme interests not held by the group arising as a result of consolidation.
- The cash flows relating to the subordinated call notes have been allocated to the earliest period in which they are callable by MMIGL. 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.
- The preference shares are redeemable at the option of the issuer on any dividend payment date and the ultimate redemption date is 28 June 2020 (maturity date extended from 27 June 2017 in the current year). It is expected that the preference shares will only be redeemed on the ultimate redemption date.

Financial liabilities carried at amortised cost:

- It is expected that the A3 preference shares will convert into ordinary shares and that there will therefore be no cash outflow on conversion; however, if the shares are not converted, an outflow at redemption value on the redemption date, 29 December 2017 (extended by six months in the current year), is assumed. The group has a further obligation to pay preference share dividends. The cash flows for these dividends are those expected up to redemption date, even though the conversion of the preference shares is at the option of the preference shareholder.
- Included in other payables at amortised cost is a loan from FirstRand Bank Ltd of R487 million (2016: R492 million). Interest on the loan is levied at 11%. The interest is repaid monthly with the capital balance payable in December 2025. The loan is secured by the underlying property.

39 LIQUIDITY RISK *continued*

Maturity profile of liabilities *continued*

2016 R million	Carrying value	Total	Open-ended	0 to 1 year	1 to 5 years	5 to 10 years	> 10 years
Insurance contracts (DCFs)	105 126	105 124	16 383	11 144	24 751	20 141	32 705
Linked (market-related) business							
Individual	18 673	18 673	1 654	1 452	4 118	4 061	7 388
Employee benefits	1 469	1 469	–	170	523	372	404
Smoothed bonus business							
Individual	27 870	27 869	1 454	3 605	8 324	6 386	8 100
Conventional with-profit business	9 326	9 326	3 279	544	1 002	750	3 751
Non-profit business							
Individual	5 605	5 604	2 528	425	268	130	2 253
Employee benefits	2 050	2 050	200	1 224	280	231	115
Annuity business	40 133	40 133	7 268	3 724	10 236	8 211	10 694
Investment contracts with DPF (DCFs)	25 133	25 133	19 586	738	2 032	1 286	1 491
Linked (market-related) business							
Individual	164	164	–	28	51	48	37
Smoothed bonus business							
Individual	6 555	6 555	1 482	680	1 886	1 164	1 343
Employee benefits	17 892	17 892	17 890	–	1	1	–
Non-profit business							
Individual	3	3	3	–	–	–	–
Employee benefits	165	165	165	–	–	–	–
Annuity business	354	354	46	30	94	73	111
Investment contracts (undiscounted cash flows)	221 276	222 417	107 995	4 540	17 157	11 261	81 464
Linked (market-related) business							
Individual	139 831	138 422	38 957	3 215	5 222	10 727	80 301
Employee benefits	70 431	70 431	68 864	15	319	116	1 117
Non-profit business							
Individual	8 428	10 764	93	721	9 893	56	1
Annuity business	2 586	2 800	81	589	1 723	362	45
Subtotal policyholder liabilities under insurance and investment contracts	351 535	352 674	143 964	16 422	43 940	32 688	115 660
Cell captive and short-term business	20 543						
Total policyholder liabilities under insurance and investment contracts	372 078	352 674	143 964	16 422	43 940	32 688	115 660
Financial liabilities designated at fair value through income	38 374	40 168	26 368	8 799	3 454	1 547	–
Collective investment scheme liabilities	26 368	26 368	26 368	–	–	–	–
Subordinated call notes	3 557	5 351	–	353	3 451	1 547	–
Carry positions	7 313	7 313	–	7 313	–	–	–
Preference shares	1 018	1 018	–	1 018	–	–	–
Other	118	118	–	115	3	–	–
Derivative financial instruments	2 097						
Amortised cost	1 058	1 373	–	488	25	860	–
Cumulative redeemable convertible preference shares	275	315	–	315	–	–	–
Finance lease liabilities	1	1	–	1	–	–	–
Other	782	1 057	–	172	25	860	–
Reinsurance contract liabilities	973	973	–	694	142	91	46
Other payables at amortised cost	12 948	12 948	–	12 790	158	–	–
Other liabilities	6 775						
Total liabilities	434 303	408 136	170 332	39 193	47 719	35 186	115 706

39 **LIQUIDITY RISK** *continued*

Maturity profile of derivative financial instruments

Contractual maturities are assessed to be essential for an understanding of all derivatives presented in the consolidated 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 group's derivatives are subject to collateral requirements. Cash flows for those derivatives could occur earlier than the contractual maturity date.

2017 R million	Carrying value	Total	0 to 1 year	1 to 5 years	> 5 years
Derivatives held for trading					
Equity derivatives	28	23	22	–	1
Interest rate derivatives	1 410	1 701	(321)	2 796	(774)
Bond derivatives	(36)	14 091	(1 926)	430	15 587
Credit derivatives	4	2	3	8	(9)
Currency derivatives	(794)	(483)	29	(201)	(311)
Total net undiscounted cash flow projections	612	15 334	(2 193)	3 033	14 494
Derivative financial instruments					
Assets	2 439				
Liabilities	(1 827)				
	612				

2016 R million	Carrying value	Total	0 to 1 year	1 to 5 years	> 5 years
Derivatives held for trading					
Equity derivatives	74	75	75	–	–
Interest rate derivatives	874	1 539	(290)	2 252	(423)
Bond derivatives	(1)	13 475	(1 302)	144	14 633
Credit derivatives	(1)	(5 447)	2 191	3 033	(10 671)
Currency derivatives	(1 067)	(593)	42	(282)	(353)
Total net undiscounted cash flow projections	(121)	9 049	716	5 147	3 186
Derivative financial instruments					
Assets	1 977				
Liabilities	(2 097)				
	(120)				

40 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 group are subject to the components of market risk as follows:

	Carrying value				
	2017 Rm	2016 Rm	Market price risk	Interest rate risk	Currency risk
Assets					
Carried at fair value					
Designated at fair value through income					
Equity securities	**101 290**	107 874	✓✓		✓
Debt securities	**99 645**	111 397	✓	✓✓	✓
Funds on deposit and other money market instruments	**26 616**	18 697	✓	✓✓	✓
Unit-linked investments	**141 654**	135 662	✓✓	✓	✓
Investments in associates designated at fair value through income	**15 039**	10 499	✓✓	✓	✓
Derivative financial instruments — Held for trading	**2 439**	1 977	✓✓	✓✓	✓
Available-for-sale					
Equity securities	**8**	113	✓✓		
Local unlisted quoted collective investment schemes	**10**	12	✓✓		
Carried at amortised cost					
Held-to-maturity	**397**	122		✓✓	✓✓
Loans and receivables					
Accounts receivable	**3 747**	3 937		✓	✓
Unsettled trades	**557**	896			✓
Loans	**2 773**	2 557		✓✓	✓
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**4 292**	4 243		✓	✓
Cash and cash equivalents	**27 353**	29 148		✓✓	✓
Other non-financial assets	**30 080**	31 568	N/A	N/A	N/A
Total assets	**455 900**	458 702			

	Carrying value 2017 Rm	Carrying value 2016 Rm	Market price risk	Interest rate risk	Currency risk
40 MARKET RISK *continued*					
Liabilities					
Carried at fair value					
Investment contracts					
Designated at fair value through income	**233 434**	232 790	✓✓	✓✓	✓
Designated at fair value through income					
Collective investment scheme liabilities	**24 961**	26 368	✓✓	✓	✓
Subordinated call notes	**3 602**	3 557	✓	✓✓	
Carry positions	**7 676**	7 313	✓	✓✓	
Preference shares	**1 018**	1 018	✓	✓✓	
Other	**74**	118		✓	✓
Derivative financial instruments					
Held for trading	**1 827**	2 097	✓✓	✓✓	✓
Carried at amortised cost					
Financial liabilities					
Cumulative redeemable preference shares	**261**	275		✓✓	
Other	**968**	783		✓	
Other payables					
Payables arising from insurance contracts and investment contracts with DPF (excluding premiums received in advance)	**5 277**	5 610			✓
Payables arising from investment contracts	**668**	157			✓
Unsettled trades	**852**	2 022			✓
Commission creditors	**939**	812		✓	✓
Other payables at amortised cost	**4 929**	4 347		✓	✓
Insurance contract liabilities	**114 242**	114 093	*	*	*
Investment contracts with DPF liabilities	**24 338**	25 195	✓✓	✓✓	✓✓
Other non-financial liabilities	**7 586**	7 748	N/A	N/A	N/A
Total liabilities	**432 652**	434 303			

✓✓ High exposure
✓ Medium/low exposure
* These liabilities are not financial instruments and the risks to which they are subject to are explained in note 36.

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

- the policyholder carries the majority of the market risk; while
- the group carries the risk of investment guarantees provided and of a 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, MMI is also exposed to reputational risk if actual investment performance is not in line with policyholder expectations.

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

40 MARKET RISK *continued*

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 BSM is responsible for the group'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 group'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 DPF

Assets are invested in line with specified mandates in equities, fixed-interest assets, property and cash, both globally and locally, according to the asset manager's best investment view. 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 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 group 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.
- 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.
- Short-term derivative hedging strategies can be used to protect the funding level against further deterioration due to poor investment performance.
- In very extreme circumstances, funds may be transferred from the shareholder portfolio into the BSA on a temporary or permanent basis.

Individual and group contracts with DPF and continuous guarantees

Certain portfolios 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 for group contracts, allowance is made for the payment of benefits over a period of up to 12 months if large collective outflows may prejudice remaining investors. Derivative instruments are used to minimise downside market risk in these portfolios.

40 MARKET RISK *continued*

Market risk management per product *continued*

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 group 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 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 group's investment managers, which is supported by technical as well as fundamental analysis.

Individual contracts offering investment guarantees

The group 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 average annual bonus rate, measured over the lifetime of the contract, 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 is given.

The group also carries conventional business that offers minimum guarantees on maturity, surrender and death, with different forms of guarantees that apply in each event.

On some closed funds policyholders have the option to purchase a minimum guaranteed return of up to 5% p.a. The guarantee charge for these policies is set at a level that will cover the expected cost of guarantees, including the opportunity cost of additional capital held in respect of these guarantees. Only selected portfolios qualify for this guarantee and the guarantee also applies only to specific terms.

On inflation-linked annuities a minimum annual increase rate is generally applicable, for instance as a consequence of regulatory requirements whereby pension income cannot reduce in nominal terms. The minimum increase represents an inflation-related embedded financial guarantee.

The risk of being unable to meet guarantees is managed by holding a specific liability, as well as additional statutory capital, for minimum maturity values and other guaranteed benefits arising from minimum contractual investment returns, in accordance with actuarial guidance (APN 110). Stochastic modelling is used to quantify the reserves and capital required to finance possible shortfalls in respect of minimum maturity values and other guaranteed benefits. The stochastic model is calibrated to market data. The shareholders' exposure to fluctuations in this liability is mitigated by the use of hedging strategies, subject to available instruments and the overall risk profile of the business.

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 group invests in an actively managed portfolio of government and corporate bonds, promissory notes from banks, swaps and other interest rate derivatives which provide a high degree of matching to the interest risk profile of the liabilities. The mismatch risk is managed on a dedicated risk management system that includes daily monitoring of board-approved limits. Index-linked annuities, which provide increases in line with inflation, are generally matched with index-linked bonds or bank-issued matching structures. Where cash flow matching is not possible, or not desirable from an overall risk profile perspective, 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 R8 million (2016: R15 million) for MMIGL.

The liability valuation calculation for MMIGL annuities is based on the risk-free yield curve. The average rate that produces the same result is 9.7% (2016: 9.7%).

40 MARKET RISK *continued*

Market risk management per product *continued*

Guaranteed endowments and structured products

The group 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 group's reinsurance policies.

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.

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 group 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 through hedging as well as diversification against other interest rate risks.

40.1 Market risk management per risk factor

Equity risk

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 systematic risk cannot.

The group 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 there is access 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, 52 of 1998;
- requiring these fund managers to maintain the overall equity exposure within the prudential investment guidelines set by the FSB; and
- 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 asset managers and specialist alternative investment boutiques 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 MMI Private Equity Investments Committee, represented by specialist investment professionals and independent MMI representatives; and
- mitigating the risk of potential subjective valuation due to the nature of unlisted investments by utilising the guideline developed by the South African Venture Capital and Private Equity Association (SAVCA) to provide a framework for valuation and disclosure in this regard. This framework is consistent with best practice exercised and recommended by the European Venture Capital and Private Equity Association.

Refer to sensitivity analysis in note 40.5.

40 **MARKET RISK** *continued*

40.2 Interest rate risk

Interest rate risk is the risk that the value and/or future cash flows of financial instruments held will fluctuate relative to those of liabilities issued, 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 group'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. 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	**99 645**	**34 355**	**63 320**	**1 970**	**7.0**
Funds on deposit and other money market instruments	**26 616**	**21 505**	**5 070**	**41**	**7.2**
Derivative financial assets	**2 439**	**–**	**2 439**	**–**	**N/A**
Derivative financial liabilities	**(1 827)**	**–**	**(1 827)**	**–**	**N/A**
Held-to-maturity	**397**	**36**	**361**	**–**	**19.9**
Cash and cash equivalents	**27 353**	**21 947**	**3 245**	**2 161**	**4.9**
Loans and receivables	**7 077**	**2 699**	**1 247**	**3 131**	**6.6**
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**4 292**	**–**	**24**	**4 268**	**–**
	165 992	**80 542**	**73 879**	**11 571**	
2016					
Designated at fair value through income					
Debt securities	111 397	38 267	69 873	3 257	7.3
Funds on deposit and other money market instruments	18 697	15 452	3 160	85	7.3
Derivative financial assets	1 977	–	1 977	–	N/A
Derivative financial liabilities	(2 097)	–	(2 097)	–	N/A
Held-to-maturity	122	–	122	–	7.1
Cash and cash equivalents	29 148	23 658	3 496	1 994	4.8
Loans and receivables	7 390	2 418	1 394	3 578	8.7
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	4 243	–	130	4 113	–
	170 877	79 795	78 055	13 027	

Liability exposure to interest rates is reflected in note 11.

40 MARKET RISK *continued*

40.3 Currency risk

Currency risk is the risk that the rand value and/or future cash flows of financial assets 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 group'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 maloti 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 group. The geographical area of Africa includes Botswana, Ghana, Kenya, Malawi, Mauritius, Mozambique, Nigeria, Tanzania and Zambia.

The following assets, denominated in foreign currencies, where the currency risk (including translation risk) resides with the group, are included in the group'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	486	1 631	13 089	1 594	1 648	1 403	19 851
Debt securities	973	122	2 783	1 506	–	82	5 466
Funds on deposit and other money market instruments	489	–	6	–	–	70	565
Unit-linked investments	13	2 139	36 749	1 398	6	90	40 395
Investments in associates	–	24	376	–	–	–	400
Derivative financial instruments	–	–	39	–	–	–	39
Available-for-sale							
Held-to-maturity	377	–	–	–	–	20	397
Loans and receivables	97	121	177	36	23	113	567
Cash and cash equivalents	328	307	4 968	667	26	212	6 508
Other financial assets	92	–	223	–	–	16	331
	2 855	4 344	58 410	5 201	1 703	2 006	74 519

40 MARKET RISK *continued*

40.3 Currency risk *continued*

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	948	1 774	14 638	1 462	1 901	1 265	21 988
Debt securities	1 394	192	3 162	1 733	–	67	6 548
Funds on deposit and other money market instruments	239	10	7	–	–	48	304
Unit-linked investments	15	1 163	31 519	1 332	5	90	34 124
Investments in associates	–	32	496	–	–	–	528
Derivative financial instruments	–	–	138	2	1	–	141
Available-for-sale							
Equity securities	102	–	–	–	–	–	102
Held-to-maturity	78	–	–	–	–	–	78
Loans and receivables	225	81	187	37	13	56	599
Cash and cash equivalents	494	351	5 024	725	36	42	6 672
Other financial assets	69	–	302	–	–	13	384
	3 564	3 603	55 473	5 291	1 956	1 581	71 468

The assets above generally back policyholder liabilities, reducing the currency risk exposure for shareholders.

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

40.4 Property risk

Property 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 group's exposure to property holdings at 30 June is as follows:

	2017 Rm	2016 Rm
Investment properties	**7 340**	7 422
Owner-occupied properties	**4 105**	3 112
Properties under development	**111**	187
Collective investment schemes > 55% property exposure (refer to Annexure B)	**5 187**	3 718
Investment property held for sale	**–**	470
	16 743	14 909
Percentage of total assets	**3.7%**	3.3%

Refer to note 4 for the concentration risk regarding types of properties relating to investment properties. Owner-occupied properties mainly comprise office buildings.

The group 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 R647 million (2016: R755 million).

40 MARKET RISK *continued*

40.5 Sensitivity to market risk

The group's earnings and net asset value are exposed to market risks. The group 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 long-term interest rates by 100 basis points:

	Equity prices		Interest rates	
2017	**Increase by 10% Rm**	**Decrease by 10% Rm**	**Increase by 100 bps Rm**	**Decrease by 100 bps Rm**
Increase/(decrease) in earnings per income statement	**139**	**(143)**	**75**	**(78)**
Increase/(decrease) in equity	**336**	**(340)**	**86**	**(131)**
2016				
Increase/(decrease) in earnings per income statement	282	(275)	33	(22)
Increase/(decrease) in equity	495	(489)	33	(22)

Sensitivity ranges

- The upper and lower limits of the sensitivity ranges are management's best judgement of the range of probable changes within a 12-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.
- In line with MMI'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 derivatives and other structures are implemented to reduce equity and interest rate risk on shareholder exposures in accordance with risk appetite requirements. 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 within approved risk limits and tolerances 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 group is not considered to be material. Refer to note 40.3 for more details on the group's currency exposure.

41 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 deterioration of creditworthiness (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. Where instruments are held in cell captive arrangements, where the cell owner takes the risk, the credit risk is also transferred.

Credit risk governance

The governance of credit risk is comprehensively set out in the 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 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 group executive committee. This committee reports to the group's executive committee on the effectiveness of credit risk management and provides an overview of the group's shareholder credit portfolio. The executive BSM and its sub-committees are responsible for the approval of relevant credit policies and the ongoing review of the group 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 the 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 group'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, S&P or GCR.
- Current exposure and portfolio diversification effects.

To achieve the above, an internal credit risk function performs ongoing risk management of the credit portfolio which includes:

- 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.

41 CREDIT RISK *continued*

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 board BSM 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 group is exposed to credit risk generated by debt instruments which are invested by collective investment schemes and other unit-linked investments in which the group invests. The group's exposure to these funds is classified at fund level (refer to Annexure B 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 collective investment schemes as required by control clauses within the Collective Investment Scheme Control Act, 45 of 2002.

Derivative contracts

The group 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 set off with the same counterparty, resulting in only the net exposure being included in the overall group counterparty exposure analysis.

For OTC equity index options, the credit risk is managed through the creditworthiness of the counterparty in terms of the group's credit risk exposure policy. For OTC interest rate swaps, the group 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 group is authorised to conduct lending activities as a lender in respect of local listed equity securities and listed government stock to appropriately accredited institutions. In general, the lender retains the full economic risks and rewards of securities lent.

Scrip lending agreements are governed by the Global Master Securities Lending Agreement (GMSLA).

The main risk in scrip lending activities is the risk of default by the borrower of securities, ie the borrower fails to return the borrowed securities. Borrower default risk is mitigated by either requiring borrowers to post adequate levels of high-quality collateral and/or by the use of indemnity guarantees from the borrowers.

Where collateral is received, the group monitors collateral levels on a daily basis and the status of collateral coverage is reported to the executive BSM on a quarterly basis. This collateral serves as security for the scrip lending arrangements in the event of default by the borrowers. Where the borrower default risk is mitigated by means other than collateral, the group monitors the counterparty credit exposure to be within approved limits and the group ensures that credit risk capital is held against counterparty credit exposure.

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 group's new business premiums 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 debtors is made to the extent that these are not considered to be recoverable, and a legal recovery process commences.

Policy loans

The group'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.

Policy loans are secured by policies issued by the group. In terms of the regulations applicable to the group, 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 group owns.

41 CREDIT RISK *continued*

Loans and receivables *continued*

Reinsurance

The group only enters into reinsurance treaties with reinsurers registered with the FSB. 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 group 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

For the group's maximum exposure to credit risk refer to note 6.7.

Financial assets and liabilities designated at fair value through income

The current year and cumulative fair value movements on instruments that would have otherwise been classified as loans and receivables or payables under IAS 39, but which have been designated at fair value through income, were mainly due to market movements. The current year fair value movement includes R24 million (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).

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 MMI Group Ltd to Baa2. On 15 June 2017 Moody's affirmed MMIGL's national scale insurer financial strength rating of Aaa.za (the highest local scale rating).

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 group's credit risk exposure policy described in this note.

Debt securities

The group acquired cash flows of property rental agreements of which a portion, with a total market value of R435 million (2016: R726 million), is secured by direct properties. The market value of the properties exceed the fair value of the rentals.

Linked notes

The group has put options with Rand Merchant Bank (RMB) against the linked notes listed and issued by RMB for the guaranteed capital amounts invested which are exercisable 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 30 June 2017 (2016: R621 million).

Transfers of financial assets

The group is involved in the transfer of financial assets through scrip lending and sale and repurchase of assets agreements. 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.

There was no scrip on loan at 30 June 2017. The carrying value of scrip lent in the prior year was R1 million and consisted of local listed equity securities. There was no collateral on the scrip lent as at the end of the prior year.

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 496 million (2016: R1 474 million) are limited to and secured by the underlying value of the unpaid policy benefits. For further details refer to note 6.4. 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.

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MMI HOLDINGS Ltd annual financial statements 30 June 2017

Statement of **financial position**

AT 30 JUNE 2017

	2017 Rm	2016 Rm	Notes
ASSETS			
Interest in subsidiary companies	**21 843**	21 792	2
Financial instruments	**1 381**	1 413	
Loans and receivables	**1 381**	1 413	3
Current income tax asset	**1**	1	10.1
Cash and cash equivalents	**16**	33	4
Total assets	**23 241**	23 239	
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital and share premium	**17 594**	17 580	5
Other components of equity	**55**	55	
Retained earnings	**5 246**	4 779	
Total equity	**22 895**	22 414	
LIABILITIES			
Financial instruments	**261**	275	
Amortised cost	**261**	275	6
Employee benefit obligations	**23**	23	8
Other payables	**62**	527	9
Total liabilities	**346**	825	
Total equity and liabilities	**23 241**	23 239	

Income statement

FOR THE YEAR ENDED 30 JUNE 2017

	2017 Rm	2016 Rm	Notes
Investment income	**3 167**	2 905	11
Net income	**3 167**	2 905	
Impairment expenses/(reversals)	**120**	(46)	12
Employee benefit expenses	**36**	31	13
Other expenses	**28**	34	14
Expenses	**184**	19	
Results of operations	**2 983**	2 886	
Finance costs	**(39)**	(41)	15
Profit before tax	**2 944**	2 845	
Income tax	**(6)**	(11)	10.2
Earnings for year attributable to owners of the company	**2 938**	2 834	

Statement of **comprehensive income**

FOR THE YEAR ENDED 30 JUNE 2017

	2017 Rm	2016 Rm
Earnings for year	**2 938**	2 834
Other comprehensive income for year, net of tax	**–**	–
Total comprehensive income for year attributable to owners of the company	**2 938**	2 834

Statement of **changes in equity**

FOR THE YEAR ENDED 30 JUNE 2017

	Share capital Rm	Retained earnings Rm	Other components of equity Rm	Total attributable to owners of the company Rm	Notes
Balance at 1 July 2015	17 563	4 414	55	22 032	
Total comprehensive income	–	2 834	–	2 834	
Dividend paid	–	(2 469)	–	(2 469)	
Conversion of preference shares	17	–	–	17	5
Balance at 1 July 2016	**17 580**	**4 779**	**55**	**22 414**	
Total comprehensive income	**–**	**2 938**	**–**	**2 938**	
Dividend paid	**–**	**(2 471)**	**–**	**(2 471)**	
Conversion of preference shares	**14**	**–**	**–**	**14**	5
Balance at 30 June 2017	**17 594**	**5 246**	**55**	**22 895**	

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	**(128)**	(103)	16.1
Dividends received	**2 767**	2 827	
Interest received	**78**	78	11
Income tax paid	**(6)**	(13)	16.2
Interest paid	**(39)**	(41)	16.3
Net cash inflow from operating activities	**2 672**	2 748	
Cash flow from investing activities			
Investments in subsidiary companies	**(332)**	(1 008)	
Loans advanced to related parties	**(580)**	(982)	
Loans repaid by related parties	**694**	1 675	
Net cash outflow from investing activities	**(218)**	(315)	
Cash flow from financing activities			
Dividends paid	**(2 471)**	(2 469)	
Net cash outflow from financing activities	**(2 471)**	(2 469)	
Net cash flow	**(17)**	(36)	
Cash and cash equivalents at beginning	**33**	69	
Cash and cash equivalents at end	**16**	33	4

Notes to the **financial statements**

FOR THE YEAR ENDED 30 JUNE 2017

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The basis of preparation and accounting policies of the company are the same as that of the group, as set out in the group financial statements. These financial statements should be read in conjunction with the group financial statements.

	2017 Rm	2016 Rm
2 INTEREST IN SUBSIDIARY COMPANIES	**20 959**	20 667
Cost less impairment	**884**	1 125
Loans to subsidiary companies (Annexure A)	**21 843**	21 792
Opening balance	**21 792**	21 137
Cost of interest in subsidiaries acquired	**358**	1 008
Repayment of loan capitalised	**(28)**	–
Less: impairment charge	**(38)**	–
Movements in loans to subsidiary companies	**(241)**	(353)
Closing balance	**21 843**	21 792

General

Details of interests in subsidiary companies are disclosed in Annexure A.

Loans to subsidiary companies

The loans to subsidiary companies are not of a commercial nature and are therefore interest-free, with no fixed repayment terms. These loans are intended to provide the subsidiaries with a long-term source of additional capital. The company can recall these loans when cash is required.

Additions to the cost of subsidiaries and other movements

MMI Strategic Investments (Pty) Ltd (MMISI): The company acquired additional shares in MMISI for R41 million during the current year (2016: R179 million).

Metropolitan Health (Pty) Ltd (MH): The company capitalised R115 million of its loan to MH. In the prior year the company acquired additional shares in MH for R300 million.

Momentum Retirement Administrators (Pty) Ltd (MRA): MRA is in the process of deregistering. R28 million of the loan that was previously capitalised was repaid and the business was moved to MMI Group Ltd in the current year. In the prior year the company acquired additional shares in MRA for R10 million.

MMI Finance Company (Pty) Ltd (MMI FINCO): The company acquired additional shares in MMI FINCO for R200 million during the current year.

Union Money (Pty) Ltd (UM): The company acquired additional shares in UM for R2 million during the current year.

Metropolitan International Holdings (Pty) Ltd (MIH): In the prior year the company acquired additional shares in MIH for R374 million.

Eris Property Group (Pty) Ltd (Eris): In the prior year the company acquired additional shares in Eris for R145 million.

Impairment

The company impaired the investments in Metropolitan Odyssey Ltd (R36 million) and Union Money (Pty) Ltd (R2 million) in the current year.

		2017 Rm	2016 Rm
3	**LOANS AND RECEIVABLES**		
	Accounts receivable	**68**	4
	Loans to related parties	**1 312**	1 408
	Loans to subsidiary companies (Annexure A)	**1 285**	1 182
	Less: provision for impairment on loans to subsidiary companies	**(310)**	(225)
	Loans to associates	**1**	11
	Less: provision for impairment on loans to associates	**–**	(3)
	Preference shares	**65**	58
	Empowerment partners	**271**	385
	Strategic unsecured loans	**1**	1
		1 381	1 413
	Current	**1 316**	1 360
	Non-current	**65**	53
		1 381	1 413
	Reconciliation of provision for impairment		
	Opening balance	**228**	274
	Additional provisions/(reversals) for current year (refer to note 12)	**82**	(46)
	Closing balance	**310**	228

Terms and conditions of material loans

- Loans to subsidiary companies are generally interest-free, unsecured and have no repayment terms. When the subsidiary is in a position to repay the loan, it will be payable on demand. The carrying value therefore approximates fair value.
- The loans to associates in the prior year include a loan to C Shell 448 (Pty) Ltd (C Shell) for R10 million. The loan was unsecured, had no repayment terms and interest was as agreed between the shareholders, being zero percent. The carrying value approximated fair value. C Shell became a fully owned subsidiary of MMI Holdings Ltd in the current year. The aforementioned loan is classified as a loan to subsidiary in the current year.
- Preference shares:
  MMI Holdings Ltd acquired preference shares in Eris for R48 million in the 2013 financial year. These preference shares are subject to dividends (at risk-free rate plus 0.5%) disclosed as part of interest income. Interest for the period is R7 million (2016: R7 million). The preference shares have a term of five years from issue date. The carrying value approximates fair value.
- Loans to empowerment partners:
  - The loans to empowerment partners is R271 million (2016: R285 million) at 30 June 2017, which relates to preference shares acquired on 2 December 2011 in Off the Shelf Investments (Pty) Ltd (a KTH subsidiary) for R316 million. Given the financial substance of the KTH subsidiary and the commercial terms attached to the funding arrangement, there is sufficient security in the company that the group does not carry and has not carried the risks and rewards of the shares that are funded by the loan. The loan is therefore not accounted for as an option under IFRS 2 – Share-based payments – and is recognised as a receivable carried at amortised cost. Interest is charged at 88% of the prime interest rate of South Africa and the preference shares have a repayment date of 29 December 2017 (after extending it under the same terms by six months in the current year).
  - In the prior year MMI Holdings Ltd had a loan of R33 million to Business Venture Investments No 1796 (Pty) Ltd (BVI), a wholly owned subsidiary of KTH. The loan was interest-free and repayable on written notice by MMI Holdings or BVI at anytime of the year from 26 February 2016. The loan was settled in the current year.
  - In the prior year MMI Holdings Ltd had an unsecured loan of R66 million to a subsidiary of KTH, on which interest was charged at 80% of the prime interest rate. The loan was settled in the current year.

The fair value of loans to empowerment partners at 30 June 2017 approximates the carrying value as the repayment date is within one year.

Impairment

The loans to subsidiary companies were impaired by R82 million in the current year. In the prior year impairment on loans to subsidiary companies was reversed by R46 million.

		2017 Rm	2016 Rm
4	**CASH AND CASH EQUIVALENTS**		
	Bank and other cash balances	**16**	33

The carrying value approximates fair value due to its short-term nature.

5 **SHARE CAPITAL AND SHARE PREMIUM**

Authorised share capital of MMI Holdings Ltd

2 billion ordinary shares of 0.0001 cents each

129 million (76 million A1, 13 million A2 and 40 million A3) variable rate cumulative redeemable convertible preference shares of 0.0001 cents each

Issued share capital of MMI Holdings Ltd

1.6 billion ordinary shares of 0.0001 cents each

29 million A3 variable rate cumulative redeemable convertible preference shares of 0.0001 cents each in issue

Number of shares in issue (million)	2017	2016
Opening balance	**1 574**	1 572
Conversion of preference shares	**2**	2
Closing balance	**1 576**	1 574

Share capital and share premium	Rm	Rm
Opening balance	**17 580**	17 563
Conversion of preference shares	**14**	17
Closing balance	**17 594**	17 580

On 3 October 2016 and 3 April 2017, 781 043 and 755 988 A3 preference shares, respectively, were converted into ordinary shares.

Further details of the preference shares are disclosed in note 11.2 of the group financial statements.

		2017 Rm	2016 Rm
6	**FINANCIAL LIABILITIES AT AMORTISED COST**		
	Cumulative redeemable convertible preference shares – current	**261**	275
	Due at the beginning	**275**	292
	Accrued interest	**39**	41
	Interest paid	**(39)**	(41)
	Converted	**(14)**	(17)
	Due at the end	**261**	275

Details of the cumulative redeemable convertible preference shares are disclosed in note 11.2 of the group financial statements.

The estimated fair value of the cumulative redeemable preference shares is R583 million (2016: R687 million) and is based on the market value of the listed ordinary shares, adjusted for the differences in the estimated dividend cash flows between the valuation and conversion dates. As the preference shares are already convertible, the market value is deemed to be the minimum value. In 2017, the expected cash flows were discounted at a current market rate of 12% (2016: 11%) (level 2). The conversion of the preference shares is at the option of the preference shareholder; the date of conversion was estimated based on the most beneficial dividend stream to the holder. In the current year, the compulsory redemption date was extended by six months to 29 December 2017 under the same terms. The extension was treated as a renegotiation of the original contract. The liability has therefore been adjusted by the present value of the additional cash flow resulting from the extension.

		2017 Rm	2016 Rm
7	**DEFERRED INCOME TAX**		
	Deferred tax asset	4	4
	Tax losses and credits	4	4
	Deferred tax liability	(4)	(4)
	Revaluations	(4)	(4)
		–	–
	Movement in deferred tax		
	Balance at beginning	–	–
	Charge to income statement	–	–
	Revaluations	(16)	(78)
	Tax losses and credits	16	78
	Balance at end	–	–

Creation of deferred tax asset

Tax losses have been provided for as a deferred tax asset where, at year-end, there was certainty as to their recoverability.

A deferred tax asset of R4 million (2016: R17 million), relating to a capital loss, has not been recognised due to the uncertainty of recoverability.

		2017 Rm	2016 Rm
8	**EMPLOYEE BENEFIT OBLIGATIONS**		
	Cash-settled scheme	1	4
	Subsidiary share scheme	16	11
	Leave pay[1]	–	1
	Staff and management bonuses	6	7
		23	23
	Current	7	10
	Non-current	16	13
		23	23
	Cash-settled scheme – long-term incentive plan		
	Balance at beginning	4	15
	Unutilised amounts reversed	(2)	(7)
	Benefits paid	(1)	(4)
	Balance at end	1	4
	Subsidiary share schemes		
	Balance at beginning	11	–
	Interest expense	1	1
	Actuarial losses/(gains)	1	(5)
	Current service costs	3	15
	Balance at end	16	11

[1] Amount rounds down to less than R1 million in the current year.

8 EMPLOYEE BENEFIT OBLIGATIONS *continued*

Refer to note 14.2.2 of the group financial statements for details of this plan.

	2017 MMI LTIP ’000	2016 MMI LTIP ’000
Number of units outstanding		
At beginning of year	315	924
Units granted during year	92	198
Units transferred (to)/from other companies	(266)	23
Units exercised/released during year	(49)	(179)
Units cancelled/lapsed during year	–	(651)
At end of year	92	315
Performance units	41	181
Retention units	51	134
	92	315
Inputs used in valuation of the MMI LTIP		
Current vesting rate	100%	100%
Share price at reporting date	R22.24	R22.64
Inputs used in valuation of the subsidiary share scheme		
Risk-free rates	9.4%	10.1%
Growth rate	11.7%	12.3%
Forfeiture rate	5%	5%

	2017 Rm	2016 Rm
9 OTHER PAYABLES		
Other payables	24	26
Loans from subsidiary companies (Annexure A)	38	501
	62	527
Current	62	527

For accounts payable, the carrying value approximates fair value due to its short-term nature.

The loans from subsidiary companies are interest-free, unsecured and payable on demand. The carrying value therefore approximates fair value.

		2017 Rm	2016 Rm
10	**INCOME TAX**		
10.1	**Current income tax (asset)/liability**		
	Movement in (asset)/liability		
	Balance at beginning	**(1)**	1
	Charged to income statement	**6**	11
	Paid during year	**(6)**	(13)
	Balance at end	**(1)**	(1)
10.2	**Income tax expense**		
	Current taxation		
	Current year		
	South African normal tax	**4**	2
	Foreign countries – withholding tax	**2**	9
		6	11

	%	%
Tax rate reconciliation		
Tax calculated at standard rate of South African tax on earnings	**28.0**	28.0
Foreign tax	**0.1**	0.3
Non-taxable items	**(28.9)**	(27.9)
Non-deductible expenses	**1.0**	–
Effective rate	**0.2**	0.4

		2017 Rm	2016 Rm
11	**INVESTMENT INCOME**		
	Dividends received – subsidiary companies	**3 088**	2 827
	Interest income	**78**	78
	Loans and receivables	**71**	70
	Cash and cash equivalents	**7**	8
	Other income	**1**	–
		3 167	2 905
12	**IMPAIRMENT EXPENSES/(REVERSALS)**		
	Impairment of loans to subsidiary companies	**82**	43
	Reversal of impairment of loans to subsidiary companies	**–**	(89)
	Impairment of investments in subsidiaries	**38**	–
		120	(46)
13	**EMPLOYEE BENEFIT EXPENSES**		
	Salaries	**20**	26
	Defined contribution retirement fund	**1**	1
	Cash-settled share-based payment expenses	**(2)**	(7)
	Subsidiary share scheme expenses	**5**	11
	Training costs	**1**	–
	Other[1]	**11**	–
		36	31

Details of the staff share schemes are disclosed in note 21.2 of the group financial statements.

[1] Includes restraint of trade payment.

		2017 Rm	2016 Rm
14	**OTHER EXPENSES**		
	Asset management fees	1	–
	Auditors' remuneration[1]	–	–
	Consulting fees	8	3
	Management fees[1]	–	9
	Marketing costs	2	3
	Office costs[1]	–	–
	Other expenses	15	15
	Other indirect taxes	2	4
		28	34
	Non-executive directors' emoluments included in other expenses above.	14	15
	[1] Amount rounds down to less than R1 million.		
15	**FINANCE COSTS**		
	Interest expense on liabilities at amortised cost		
	Redeemable preference shares	39	41
16	**CASH FLOW FROM OPERATING ACTIVITIES**		
16.1	**Cash utilised in operations**		
	Profit before tax	2 944	2 845
	Adjusted for		
	Items disclosed elsewhere		
	Dividend received	(3 089)	(2 827)
	Interest received	(78)	(78)
	Finance costs	39	41
	Non-cash-flow items		
	Reversal of impairment	–	(46)
	Employee benefit obligations	3	4
	Impairment charges	120	–
	Changes in operating assets and liabilities		
	Loans and receivables	(63)	(2)
	Employee benefit obligations	(2)	(4)
	Other operating liabilities	(2)	(36)
		(128)	(103)
16.2	**Income tax paid**		
	Due at beginning	1	(1)
	Charged and provided	(6)	(11)
	Due at end	(1)	(1)
		(6)	(13)
16.3	**Interest paid**		
	Redeemable preference shares		
	Paid 30 September	(20)	(21)
	Paid 31 March	(19)	(20)
		(39)	(41)

17 RELATED PARTY TRANSACTIONS

17.1 Holding company

Shares in MMI Holdings Ltd, the ultimate holding company in the group, are widely held by public and non-public shareholders; refer to the shareholder profile on page 284 of the integrated report. Significant subsidiary companies are listed in Annexure A. Other related parties include Rand Merchant Insurance Holdings Ltd (by virtue of its shareholding of 25% in MMI Holdings Ltd), directors, key personnel and close members of their families. Refer to note 30.1 in the group financial statements for more details.

17.2 Transactions with directors

Remuneration is paid in the form of fees to non-executive directors and remuneration to executive directors and key personnel of the company. The aggregate remuneration, shares held and transactions of the group executive committee members are disclosed in note 30.2 of the group financial statements.

17.3 Transactions with related parties

Loans are advanced between MMI Holdings Ltd and its subsidiaries and associates as funding. The loans to subsidiary companies included in loans in the statement of financial position are detailed in Annexure A. The loans to associates are included in note 3.

Details of other transactions with subsidiaries included in the financial statements are listed below.

	2017 Rm	2016 Rm
Administrative charges – MMI Group Ltd	–	9
Asset management fee expense – Momentum Asset Management (Pty) Ltd	3	3
Dividends from subsidiaries – MMI Group Ltd	2 812	2 723
Dividends from subsidiaries – Metropolitan Life of Botswana Ltd	36	8
Dividends from subsidiaries – Metropolitan Lesotho Ltd	60	55
Dividends from subsidiaries – Metropolitan Asset Managers Ltd	–	4
Dividends from subsidiaries – Eris Property Group (Pty) Ltd	85	37
Dividends from subsidiaries – Metropolitan Collective Investments Ltd	10	–
Dividends from subsidiaries – MMI Finance Company (Pty) Ltd	1	–
Dividends from subsidiaries – Metropolitan Odyssey Ltd	63	–
Dividends from subsidiaries – Union Money (Pty) Ltd	1	–
Dividends from subsidiaries – Metropolitan Life International Ltd	20	–
Interest received – MMI Group Ltd	36	33
Interest received – Eris Property Fund (Pty) Ltd	7	7
Interest received – KTH	4	5
Interest received – Off the Shelf Investments (Pty) Ltd	25	25
Finance costs – KTH	39	41

Refer to note 3 for loans and receivables with related parties.

Refer to note 30 of the group financial statements for further details on related party transactions with directors and key management personnel.

18 CONTINGENT LIABILITIES

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

19 CAPITAL COMMITMENTS

The company has given a guarantee in favour of Rand Merchant Bank (RMB) that MMISI will repay its obligations due to RMB.

20 RISK MANAGEMENT POLICIES

Details of financial instruments and risk management strategies are disclosed in notes 6 and 34 of the group financial statements. The more important financial risks to which the company is exposed are credit risk and interest rate risk.

The company's capital is managed with that of the group. The capital management of the group is discussed in note 35 of the group financial statements.

20 RISK MANAGEMENT POLICIES *continued*

20.1 Classes of assets and liabilities

The following table reconciles the assets and liabilities in the statement of financial position to the classes and portfolios of assets managed in terms of mandates.

	2017 Rm	2016 Rm
Assets		
Loans and receivables	1 381	1 413
Loans	1 313	1 409
Accounts receivable	68	4
Cash and cash equivalents	16	33
Other assets	21 844	21 793
Total assets	23 241	23 239
Liabilities		
Amortised cost	261	275
Cumulative redeemable preference shares	261	275
Other payables	62	527
Loans from subsidiary companies	38	501
Other payables	24	26
Other liabilities	23	23
Total liabilities	346	825

20.2 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The credit risk of the company is managed similarly to that of the group as disclosed in note 41 in the group financial statements.

The company's maximum exposure to credit risk is through the following classes of assets:

	2017 Rm	2016 Rm
Loans and receivables	1 381	1 413
Loans	1 313	1 409
Accounts receivable	68	4
Cash and cash equivalents	16	33
Total assets bearing credit risk	1 397	1 446

Security and credit enhancements

- For cash and cash equivalents, the credit risk is managed through the group's credit risk exposure policy described in the group financial statements.
- Security held on loans is disclosed in note 3.

Using S&P ratings (or the equivalent thereof when S&P ratings are not available), cash and cash equivalents have an A (2016: AA) credit rating. Loans and receivables consist mainly of loans to related parties and is unrated.

20.3 Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset, arising from the possibility that the company could be required to pay its liabilities earlier than expected.

20 **RISK MANAGEMENT POLICIES** *continued*

20.3 **Liquidity risk** *continued*

Liabilities at amortised cost

It is expected that the A3 preference shares will convert into ordinary shares and that there will therefore be no cash outflow on conversion; however, if the shares are not converted, an outflow at redemption value on the redemption date, 29 December 2017 (extended by six months in the current year), is assumed. The company has a further obligation to pay preference share dividends. The cash flows for these dividends are those expected up to redemption date, even though the conversion of the preference shares is at the option of the preference shareholder.

Other payables

Other payables include loans from subsidiary companies which are payable on demand.

The following table indicates the maturity analysis of the liabilities:

		Undiscounted cash flows		
2017	**Carrying value Rm**	**Total Rm**	**0 to 1 year Rm**	**1 to 5 years Rm**
Amortised cost				
Cumulative redeemable preference shares	**261**	**299**	**299**	**–**
Other payables	**62**	**62**	**62**	**–**
Other liabilities	**23**	**23**	**7**	**16**
Total liabilities	**346**	**384**	**368**	**16**
2016				
Amortised cost				
Cumulative redeemable preference shares	275	315	315	–
Other payables	527	527	527	–
Other liabilities	23	23	10	13
Total liabilities	825	865	852	13

20.4 **Market risk**

Introduction

- Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate as a result of changes in market prices.
- The key component of market risk applicable to the company is interest rate risk.

20.4.1 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.

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. Additionally, relative values of alternative investments and the liquidity of the instruments invested in could affect the fair value of interest rate market-related investments. The ongoing assessment by an investment research team of market expectations within the South African interest rate environment drives the process of asset allocation in this category.

The company is exposed to floating interest rates that result in cash flow interest rate risk. Loans and receivables (empowerment loans) have a weighted average interest rate of 8.5% (2016: 8.5%). Cash and cash equivalents have a weighted average interest rate of 5% (2016: 5%).

20.4.2 Sensitivity to market risks

The company's earnings and net asset value are exposed to market risks. The company has identified that changes in interest rates have the most significant effect on earnings and equity.

The company is exposed to floating interest rate changes only. Cash requirements fluctuate during the course of the year and are therefore of a short-term nature. Interest rate changes with respect to cash and cash equivalents will therefore not have a significant impact on earnings.

The company has no foreign currency exposure.

Annexure A

SIGNIFICANT SUBSIDIARY COMPANIES

Companies	Country of incorporation, where not South Africa	Interest held 2017 %	Interest held 2016 %	Cost 2017 Rm	Cost 2016 Rm	Loans to subsidiaries[1] 2017 Rm	Loans to subsidiaries[1] 2016 Rm
MMI Group Ltd		**100**	100	**18 129**	18 119	**–**	–
Subsidiary companies							
Momentum Finance Company (Pty) Ltd		**100**	100				
Momentum Alternative Insurance Ltd		**100**	100				
Momentum Ability Ltd		**100**	100				
MMI Health (Pty) Ltd		**100**	100				
Momentum Consult (Pty) Ltd		**100**	100				
Momentum Life Botswana Ltd	Botswana	**100**	100				
Momentum Asset Management (Pty) Ltd		**100**	100				
Momentum Global Investment Management Ltd	United Kingdom	**100**	100				
Momentum Collective Investments (RF) (Pty) Ltd		**100**	100				
Momentum Alternative Investments (Pty) Ltd		**100**	100				
Momentum International MultiManagers (Pty) Ltd		**100**	100				
Momentum Wealth (Pty) Ltd		**100**	100				
Momentum Wealth International Ltd	Guernsey	**100**	100				
102 Rivonia Road (Pty) Ltd		**80**	80				
Momentum Short-term Insurance Company Ltd		**100**	100				
MMI Short-term Insurance Administration (Pty) Ltd		**100**	100				
MMI Multiply (Pty) Ltd *(previously Momentum Interactive (Pty) Ltd)*		**100**	100				
Metropolitan Odyssey Ltd		**100**	100	**36**	36	**–**	–
Metropolitan International Holdings (Pty) Ltd		**100**	100	**1 237**	1 237	**480**	523
Subsidiary companies							
MMI Holdings Namibia Ltd	Namibia	**96.5**	96.5				
Cold Trade (Pty) Ltd	Namibia	**100**	100				
Metropolitan Life (Mauritius) Ltd	Mauritius	**70**	70				
Metropolitan Life Zambia Ltd	Zambia	**100**	100				
UBA Metropolitan Life Insurance Ltd	Nigeria	**100**	100				
Metropolitan Life Insurance Kenya Ltd	Kenya	**96**	96				
Cannon Assurance Ltd	Kenya	**96**	96				
Metropolitan Life Insurance Ghana Ltd	Ghana	**100**	100				
Metropolitan Life Swaziland Ltd	Swaziland	**67**	67				
Metropolitan Insurance (Swaziland) Ltd	Swaziland	**100**	100				
Metropolitan International Support (Pty) Ltd		**100**	100	**–**	–	**116**	116
Metropolitan Tanzania Life Assurance Company Ltd	Tanzania	**66.7**	66.7				
Subtotal				**19 402**	19 392	**596**	639

[1] These loans have been provided as a long-term source of additional capital for the subsidiary.

Companies *continued*	Country of incorporation, where not South Africa	Interest held 2017 %	Interest held 2016 %	Cost 2017 Rm	Cost 2016 Rm	Loans to subsidiaries[1] 2017 Rm	Loans to subsidiaries[1] 2016 Rm
Subtotal carried forward				**19 402**	19 392	**596**	639
Momentum Mozambique LDA	Mozambique	**66.7**	66.7				
MMI Finance Company (Pty) Ltd		**100**	100	**600**	400	**58**	234
Metropolitan Life International Ltd		**100**	100	**47**	47	**–**	–
Metropolitan Life of Botswana Ltd	Botswana	**100**	100	**73**	73	**–**	–
Metropolitan Lesotho Ltd	Lesotho	**100**	100	**120**	120	**–**	–
Momentum Retirement Administrators (Pty) Ltd		**100**	100	**–**	38	**–**	–
MMI Strategic Investments (Pty) Ltd		**100**	100	**273**	232	**–**	–
Subsidiary companies							
Momentum SP Reid Securities (Pty) Ltd		**100**	100				
Momentum Outcome-Based Solutions (Pty) Ltd		**100**	100				
Guardrisk Life Ltd		**100**	100				
Guardrisk Life International Ltd	Mauritius	**100**	100				
Guardrisk Allied Products & Services (Pty) Ltd		**100**	100				
Guardrisk Insurance Company Ltd		**100**	100				
Guardrisk International Ltd PCC	Mauritius	**100**	100				
MMI Holdings UK Ltd	United Kingdom	**100**	100				
Subsidiary companies							
Exponential Ventures LLP	United Kingdom	**80**	80				
Euroguard Insurance Company PCC Ltd	Gibraltar	**100**	100				
Momentum Financial Technology Ltd	United Kingdom	**100**	100				
Financial Partners Ltd	Hong Kong	**100**	100				
Metropolitan Asset Managers Ltd		**100**	100				
MET Collective Investments (RF) (Pty) Ltd		**100**	100	**26**	26	**–**	–
Eris Property Group (Pty) Ltd		**76.3**	76.3	**407**	407	**–**	–
Metropolitan Health (Pty) Ltd		**100**	100	**447**	332	**230**	252
Subsidiary companies							
Metropolitan Health Corporate (Pty) Ltd		**100**	100				
MetHealth (Pty) Ltd		**100**	100				
Metropolitan Health Risk Management (Pty) Ltd		**100**	100				
Global Doctor Networks (Pty) Ltd		**91.4**	91.4				
Hello Doctor (Pty) Ltd		**100**	100				
Momentum Trust Ltd		**100**	100	**8**	8	**–**	–
Less: impairments				**(444)**	(408)	**–**	–
Total interest in subsidiary companies				**20 959**	20 667	**884**	1 125

[1] These loans have been provided as a long-term source of additional capital for the subsidiary.

Annexure A (continued)

SIGNIFICANT SUBSIDIARY COMPANIES *continued*

Other loans to/(from) subsidiaries	2017 Rm	2016 Rm
MMI Strategic Investments (Pty) Ltd	821	781
MMI Infrastructure and Operations (Pty) Ltd	201	221
MMI Health (Pty) Ltd	132	132
C Shell 448 (Pty) Ltd	9	–
Metropolitan Capital (Pty) Ltd	121	46
Union Money (Pty) Ltd	–	2
Eris Property Fund (Pty) Ltd	1	–
	1 285	1 182
Less: impairments	(310)	(225)
Loans to subsidiary companies	975	957
MMI Group Ltd	(37)	(497)
Metropolitan Life of Botswana Ltd	(1)	(4)
Loans from subsidiary companies	(38)	(501)

At 30 June, the following collective investment schemes (CIS) were significant subsidiaries of the group:

	Interest held		Carrying value	
	2017 %	2016 %	2017 Rm	2016 Rm
Momentum IF Global Equity Class A USD Fund	66.9	67.2	12 700	13 052
Momentum MF Global Aggressive Sub Fund	100	100	5 611	5 651
Momentum MF Global Balanced A USD Fund	100	100	4 799	5 595
Momentum Money Market Fund	50.4	47.1	4 719	4 337
Momentum SA Defensive Growth Fund	92.7	*	3 404	*
Momentum Balanced Fund	76.9	75.3	3 389	3 476
Momentum MoM Ultra Long-Term Value Fund	93.9	100	2 927	2 985
Momentum Value Equity Fund	100	*	2 293	*
Momentum Global Growth Fund IC Ltd	98.3	96.9	2 186	2 153
Momentum MoM Macro Value Fund	100	100	2 156	1 954
Momentum MoM Property Equity Fund	99.9	99.9	2 097	1 895
Truffle MET Institutional Equity Fund	76.2	77.8	1 975	1 918
Momentum Property Fund	77.6	49.7	1 761	503
Momentum MoM Emerging Manager Growth Fund	100	100	1 700	1 750
Momentum MoM Specialist Equity Fund	91.2	100	1 602	1 692
Momentum MoM High Growth Fund	92.5	100	1 520	1 591
Momentum IF Global Fixed Income A USD Fund	97.8	97.8	1 500	1 753
Momentum Bond Fund	87.0	79.7	1 487	1 033
Momentum Best Blend Balanced Fund of Funds	78.4	76.1	1 300	1 271
Momentum MoM Real Return Fund	100	100	1 155	1 510
Momentum Best Blend Multifocus Fund of Funds	99.1	98.6	1 046	1 231
Momentum IF Global Emerging Markets A USD Fund	98.0	96.4	1 042	1 101
Momentum MF Global Moderate Sub Fund	100	100	997	955
Momentum Factor 7 Fund of Funds	75.1	73.9	934	819
Momentum Trending Equity Fund	88.1	*	904	*
Ampersand Momentum CPI Plus 4% Fund of Funds	62.3	59.6	898	924
Ampersand Momentum Equity Fund	100	100	865	903
Ampersand Momentum CPI Plus 2% Fund of Funds	53.0	53.4	840	783
Momentum Best Blend Flexible Income Fund	79.4	88.0	837	941
Momentum Factor 5 Fund of Funds	63.7	64.9	764	673
Momentum Global Managed Fund IC Ltd	95.7	91.3	746	725
Momentum Best Blend Specialist Equity Fund	63.7	58.8	741	720
Momentum MF International Equity A USD Fund	100	100	741	725
Ampersand Momentum Flexible Property Income Fund	100	99.8	628	533
Momentum Optimal Yield Fund	97.0	96.5	543	502
Saffron MET Inflation Linked Bond	99.9	99.9	516	555
VPFP International Growth Fund IC Ltd	70.6	70.5	515	556
Fairtree Equity Prescient Fund[1]	*	74.0	*	2 009
Momentum International Equity Feeder Fund	*	58.5	*	798
Momentum MoM Active Bond Fund (B1)	*	94.5	*	636

* This subsidiary was not considered to be significant in either the current or prior year.

1 This subsidiary forms part of significant CIS associates in the current year. Refer to Annexure B.

Fund name	Domicile
Momentum IF Global Equity Class A USD Fund	Luxembourg
Momentum MF Global Aggressive Sub Fund	Luxembourg
Momentum MF Global Balanced A USD Fund	Luxembourg
Momentum IF Global Fixed Income Fund A USD Fund	Luxembourg
Momentum IF Global Emerging Markets A USD Fund	Luxembourg
Momentum MF Global Moderate Sub Fund	Luxembourg
Momentum MF International Equity A USD Fund	Luxembourg
Momentum Global Managed Fund IC Ltd	Guernsey
VPFP International Growth Fund IC Ltd	Guernsey

Annexure B

UNCONSOLIDATED STRUCTURED ENTITIES

A structured entity is one that has been designed so that voting or similar rights are not the dominant factor in deciding who controls it. The group considers collective investment schemes and other unit-linked investments to be structured entities. This annexure provides information on significant unconsolidated structured entities in which the group holds an interest.

Collective investment schemes and other unit-linked investments
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. It includes investments where the exposure is subject to the underlying investments, comprising investments in pooled funds as well as investments backing policies where the group is the policyholder of an investment contract issued by other insurance companies. Where the group is the contract holder of investment contracts at another institution, 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	**139 867**	132 119
Equity	**92 854**	84 318
Interest-bearing	**20 304**	18 277
Property	**5 187**	3 718
Mixed	**19 325**	23 867
Money market	**2 188**	1 898
Commodity	**9**	41
Other unit-linked investments	**16 836**	14 054
Local and foreign		
Equity	**4 133**	4 972
Interest-bearing	**2 183**	1 895
Mixed	**9 601**	6 392
Commodity	**919**	795
	156 703	146 173
Designated at fair value through income: unit-linked investments	**141 654**	135 662
Investments in associates designated at fair value through income	**15 039**	10 499
Available-for-sale: local unlisted quoted collective investment schemes	**10**	12
	156 703	146 173

Detail on investments in associates designated at fair value through income

The group holds a significant investment in the following associates designated at fair value through income:

2017	Carrying value Rm	% interest held	Nature of relationship	Principal place of business
Fairtree Equity Prescient Fund[1]	**2 487**	**55.9**	**Standard investment**	**Bellville**
Nedgroup Investments XS Diversified Fund of Funds[2]	**1 662**	**34.4**	**Standard investment**	**V&A Waterfront**
Momentum Enhanced Yield Fund	**1 483**	**26.6**	**Standard investment**	**Sandton**
2016				
Momentum Enhanced Yield Fund	1 067	22.2	Standard investment	Sandton
Momentum Income Plus Fund (A)	575	23.8	Standard investment	Sandton
Momentum Equity Fund	546	19.3	Standard investment	Sandton

Summarised financial information relating to the associates above:

2017	Fairtree Equity Prescient Fund[1] Rm	Nedgroup Investments XS Diversified Fund of Funds[2] Rm	Momentum Enhanced Yield Fund Rm
Current assets	**150**	**34**	**103**
Non-current assets	**4 358**	**4 836**	**5 768**
Current liabilities	**58**	**57**	**295**
Non-current liabilities	**4 450**	**4 812**	**5 576**
Revenue	**46**	**175**	**41**
Earnings	**37**	**169**	**38**

2016	Momentum Enhanced Yield Fund Rm	Momentum Income Plus Fund (A) Rm	Momentum Equity Fund Rm
Current assets	1 880	815	36
Non-current assets	2 926	1 644	2 814
Current liabilities	38	5	22
Non-current liabilities	4 767	2 454	2 827
Revenue	403	203	89
Earnings	380	201	273

1 This associate formed part of CIS subsidiaries in the prior year. Refer to Annexure A.
2 This associate was not considered to be significant in the prior year.

Annexure B (continued)

UNCONSOLIDATED STRUCTURED ENTITIES *continued*

Other unconsolidated structured entities

The table below provides information on significant other unconsolidated structured entities in which the group holds an interest.

Name of entity	Investment type	Nature and purpose of business	How is the entity financed?	Carrying value[1] 2017 Rm	Carrying value[1] 2016 Rm	Income received[2] 2017 Rm	Income received[2] 2016 Rm
Thekwini Fund 14 (RF) Ltd	Floating rate note/vanilla bonds	Special purpose vehicle set up by South African Home Loans (Pty) Ltd to finance mortgage loans	Funding received from the South African capital market	**514**	*	**6**	*
Thekwini Fund 9 (Pty) Ltd	Floating rate note	Special purpose vehicle set up by South African Home Loans (Pty) Ltd to finance mortgage loans	Funding received from the South African capital market	**290**	641	**27**	54
Superdrive Investments (RF) Ltd	Floating rate note	Asset-backed securitisation set up by Standard Bank Group and BMW Financial Services	Funding received from local institutional investors	**755**	548	**(38)**	57
				1 559	1 189	**(5)**	111

* This listed securitisation was not considered significant in the prior year.

1 Included in securities designated at fair value through income in the statement of financial position. The carrying value represents the group's maximum exposure.

2 Consists of interest income and fair value gains/(losses).

3 The group has not sponsored any significant unconsolidated structured entities in which it holds an interest.

ABBREVIATIONS

ANW	Adjusted net worth
APE	Annual premium equivalent
APN	Advisory practice note
ASSA	Actuarial Society of South Africa
BSA	Bonus stabilisation accounts
CAR	Capital adequacy requirement
CGU	Cash-generating unit
DCF	Discounted cash flow
DPF	Discretionary participation features
ESA	Employer Surplus Account
EV	Embedded value
FSB	Financial Services Board
FSV	Financial soundness valuation
FTSE	Financial Times Stock Exchange
GCR	Global Credit Ratings
GLTD	Group long-term disability table
IASB	International Accounting Standards Board
IFRIC	IFRS Interpretations Committee
IFRS	International Financial Reporting Standards
JSE	Johannesburg Stock Exchange
KTH	Kagiso Tiso Holdings (Pty) Ltd
MHC	Metropolitan Health Corporate (Pty) Ltd
MMI or "the group"	MMI Holdings Ltd and its subsidiaries
MMIGL	MMI Group Ltd
NSX	Namibian Stock Exchange
OTC	Over-the-counter
PVP	Present value of future premiums
RDR	Risk discount rate
RMI	Rand Merchant Insurance Holdings Ltd
ROEV	Return on Embedded Value
S&P	Standard & Poor's
SAICA	South African Institute of Chartered Accountants
SAM	Solvency Assessment and Management
SAP	Standard of Actuarial Practice
SENS	Stock Exchange News Service
UK	United Kingdom
VIF	Present value of in-force covered business
VNB	Value of new business

DEFINITIONS

Adjusted net worth (ANW)

The ANW 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)

ASSA issues APNs 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 APE 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 FSV basis. These changes are reflected in the income statement as they occur.

Bonus stabilisation accounts (BSAs)

BSAs 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.

DEFINITIONS *continued*

Capital adequacy requirement (CAR)

The CAR is a minimum statutory capital requirement for South African life insurance companies that is prescribed in the Standards of Actuarial Practice (SAP) 104 – 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.

Capitation contracts

Capitation contracts are those under which the group accepts significant health benefit risk from medical schemes (the contract holder) by agreeing to indemnify the scheme against a defined set of the scheme benefits (the covered event) in return for a capitation fee.

Carry positions

Carry positions consist of sale and repurchase of assets agreements containing 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.
- 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.

Cash generating units (CGUs)

A CGU is the smallest identifiable group of assets that generates cash inflows largely independent of the cash flows from other assets or groups of assets.

Cell captive

A cell captive is a contractual arrangement entered into between the insurer (referred to as the "cell provider" or "promoter") and the cell shareholder whereby the risks and rewards associated with certain insurance activities accruing to the cell shareholder, in relation to the insurer, are specified. Cell captives allow clients to purchase cell owner ordinary shares (or a "cell") in the registered insurance company which undertakes the professional insurance and financial management of the cell including underwriting, reinsurance, claims management, actuarial and statistical analyses, investment and accounting services. The terms and conditions of the cell are governed by the cell owner shareholders agreement.

Cell captive arrangements include:

- "First-party" cell arrangements where the risks that are being insured relate to the cell shareholder's own operations or operations within the cell shareholder's group of companies; and
- "Third-party" cell arrangements where the cell shareholder provides the opportunity to its own client base to purchase branded insurance products. For third-party arrangements the cell shareholders agreement meets the definition of a reinsurance contract and is accounted for as such.
- Contingency policy: An insurance contract to provide entry-level insurance cover for first-party risks. These policies provide for payment of a profit share to the insured based on claims experience and related expenses at the end of the policy period.
- "Promoter cell" includes assets and liabilities of MMI shareholders. Assets, liabilities, and equity of the first and third-party cell arrangements are excluded.

Compulsory margins

Life insurance companies are required to hold compulsory margins in terms of the FSV basis prescribed in SAP 104 – 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 FSV 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 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.

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.

DEFINITIONS *continued*

Covered business

Covered business is defined as long-term insurance business recognised in the group integrated report; in respect of Guardrisk, only including the South African long-term insurance business. 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 life insurance subsidiaries. International Health businesses in Africa are exposed to the underlying risk of the health schemes and are therefore also classified as covered business.

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 DPF 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 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.

Embedded value (EV)

An EV represents the discounted value of expected after-tax future profits from the current business. The embedded value is defined as:

- the ANW of covered and non-covered business;
- plus the VIF less the opportunity cost of required capital; and
- plus the write-up to directors' value of non-covered business.

Embedded value earnings

Embedded value earnings are defined as the change in embedded value (after non-controlling interests) for the year, after adjustment for any capital movements such as dividends paid, capital injections and cost of treasury shares acquired or disposed of for the year.

Financial soundness valuation (FSV)

The FSV basis is prescribed by SAP 104 – 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 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.

Investment variances

Investment variances represent the impact of higher/lower than assumed investment returns on after tax profits.

New business profit margin

New business profit margin is defined as the value of new business expressed as a percentage of the PVP. New business profit margin is also expressed as a percentage of APE.

DEFINITIONS *continued*

Non-covered business

Non-covered business includes the directors' valuations of the investment management, South African health operations, short-term insurance operations, the non-life Guardrisk entities (ie excluding Guardrisk Life Ltd), as well as other non-insurance entities. The group embedded value is also adjusted to allow for future holding company and international support expenses.

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 becomes 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 group 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 PVP is the present value of future premiums in respect of new business using the RDR. The future premiums are net of reinsurance and are based on best-estimate assumptions such as future premium growth, mortality and withdrawal experience.

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 is 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 group, directly or indirectly, including any director (whether executive or otherwise) of the group.

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 covered business liabilities whose distribution to shareholders is restricted.

Return on embedded value

Return on embedded value is the embedded value earnings over the period expressed as a percentage of the embedded value at the beginning of the period, adjusted for capital movements during the year.

Risk discount rate (RDR)

The RDR is the rate at which future expected profits are discounted when calculating the value of in-force business or the value of new business. The RDR is determined based on the weighted average cost of capital of the company. This has taken into account the sources of capital used to fund the covered business, ie shareholder equity and subordinate debt finance. The required return on equity was derived through application of the capital asset pricing model. The cost of debt financing was based on the current financing costs.

DEFINITIONS *continued*

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 FSB 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 FSV principles. A reconciliation of the statutory excess and the reporting excess is disclosed in the statement of statutory excess.

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.

Unrated

The group invests in unrated assets where investment mandates allow for this. These investments are, however, subject to internal credit assessments.

Useful life

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

Value of new business (VNB)

The VNB 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 is 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.

CREDIT RISK 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.

Annexure D

SIGNIFICANT GROUP ACCOUNTING POLICIES

1. NEW IFRS STANDARDS AND AMENDMENTS

Standards, amendments to and interpretations of published standards that are not yet effective and have not been early adopted by the group

- IAS 7 (amendment) – Cash flow statements disclosure initiative (effective from annual periods beginning on or after 1 January 2017).
- IAS 12 (amendment) – Recognition of deferred tax assets for unrealised losses (effective from annual periods beginning on or after 1 January 2017).
- IFRS 15 – Revenue from contracts with customers (effective from annual periods beginning on or after 1 January 2018).
- IFRS 9 – Financial instruments (effective from annual periods beginning on or after 1 January 2018).
- IFRS 2 (amendment) – Classification and measurement of share-based payment transactions (effective from annual periods beginning on or after 1 January 2018).
- IFRS 4 (amendments) – Regarding the implementation of IFRS 9 (effective from annual periods beginning on or after 1 January 2018).
- IAS 40 (amendments) – Transfers of investment property (effective from annual periods beginning on or after 1 January 2018).
- IFRIC 22 – Foreign currency transactions and advance consideration (effective from annual periods beginning on or after 1 January 2018).
- IFRS 16 – Leases (effective from annual periods beginning on or after 1 January 2019).
- IFRIC 23 – Uncertainty over income tax treatments (effective from annual periods beginning on or after 1 January 2019).
- IFRS 17 – Insurance contracts (effective from annual periods beginning on or after 1 January 2021).
- IFRS 10 and IAS 28 (amendments) – Sale or contribution of assets between an investor and its associate or joint venture (postponed).

Initial high-level assessments indicate that IFRS 9 will result mainly in changes to the categories of financial assets presented in the statement of financial position, as well as causing fair value movements (relating to own credit risk) on financial liabilities designated as at fair value through income to be recorded in other comprehensive income. Management is currently assessing the impact of the above amendments in more detail.

Improvements project amendments

- IFRS 1 (amendment) – First-time adoption of IFRS (effective from annual periods beginning on or after 1 January 2017).
- IFRS 12 – Disclosure of interests in other entities (effective from annual periods beginning on or after 1 January 2017).
- IAS 28 – Investments in associates and joint ventures (effective from annual periods beginning on or after 1 January 2018).

Management is currently assessing the impact of these improvements, but it is not expected to be significant.

2. CONSOLIDATION

2.1 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group 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 group until the day that control is lost. 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 group. Separate disclosure is made of non-controlling interests. All intra-group balances and unrealised gains and losses on transactions between group companies are eliminated. 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.

Initial measurement

The acquisition method of accounting is used to account for the acquisition of subsidiaries/business combinations by the group. The cost of a business combination is the fair value of the assets given at the date of acquisition, equity issued and liabilities assumed or incurred (including contingent liabilities). This includes assets or liabilities recognised from contingent consideration arrangements. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 in profit and loss. Costs directly attributable to the business combination are expensed as incurred. The excess of the cost of acquisition over the fair value of the group's share of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interest shareholders even if this results in the non-controlling interest shareholders having a deficit balance.

2. CONSOLIDATION *continued*

2.1 Subsidiaries *continued*

Disposals

If the group loses control of a subsidiary company, the gain or loss on disposal is calculated as the difference between the fair value of the consideration received, and the carrying amount of the subsidiary's net assets and any non-controlling interest. Gains and losses on disposal of subsidiaries are included in the income statement as realised and fair value gains. Any gains or losses in other comprehensive income that relate to the subsidiary are reclassified to the income statement at the date of disposal.

Transactions with non-controlling interest shareholders

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

Measurement – MMI Holdings Ltd separate financial statements

Investment in subsidiary companies are stated at cost less any impairment losses. The carrying amount of these investments is assessed annually for impairment indicators. If an indicator exists, the investment is impaired to the higher of the investment's fair value less costs to sell and value in use.

2.2 Associates

Associates are all entities over which the group has *significant influence* but not control. The group’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 group.

Profits and losses resulting from transactions between group companies are recognised in the group’s results to the extent of the group’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 associate companies are initially recognised at cost, including goodwill, and the carrying amount is increased or decreased with the group’s proportionate share of post-acquisition profits or losses, using the equity method of accounting. Under this method, the group’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 group ceases to have *significant influence* over the associate. When *significant influence* is lost, any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in the income statement.

Investments in collective investment schemes where the group 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 group’s share of losses in an associate equals or exceeds its interest in the associate, no further losses are recognised unless the group has incurred obligations or made payments on behalf of the associate. The group resumes equity accounting only after its share of the profits equals the share of losses not recognised.

Measurement – MMI Holdings Ltd separate financial statements

Associated companies are carried at cost less impairment.

2.3 Joint arrangements

The group applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. Joint ventures are accounted for using the equity method.

2. CONSOLIDATION *continued*

2.3 Joint arrangements *continued*

Measurement

Interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the group's share of losses in a joint venture equals or exceeds its interest in the joint venture, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealised gains on transactions between the group and its joint ventures are eliminated to the extent of the group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the group.

3. FOREIGN CURRENCIES

Functional and presentation currency

Items included in the financial statements of each entity in the group are measured using the currency that best reflects the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in South African rand (the presentation currency), which is the functional currency of the parent.

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 available-for-sale 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 group 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.

On consolidation, 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.

4. INTANGIBLE ASSETS

4.1 Goodwill

Recognition and measurement

Goodwill represents the excess of the cost of a business combination over the interest acquired in the net fair value of the identifiable assets, liabilities and contingent liabilities at the acquisition date. 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.

4. INTANGIBLE ASSETS *continued*

4.1 Goodwill *continued*

Impairment

At the acquisition date, goodwill acquired in a business combination is allocated to *cash-generating units* that are expected to benefit from the synergy 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 the *cash-generating unit* exceeds its recoverable amount, being the higher of value in use and the fair value less costs to sell. Any impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to a cash-generating unit and then to reduce the carrying amount of other assets on a pro rata basis. Impairment losses on goodwill are not reversed.

4.2 Value of in-force business acquired

On acquisition of a portfolio of insurance or investment with DPF contracts, the group 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 in 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.

4.3 Customer relationships

Customer relationships relate to rights to receive fees for services rendered in respect of acquired investment contract business, group risk business with annually renewable contracts, administered retirement fund schemes, health administration and asset administration. 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 group's right to benefit from the above services and is amortised on a straight-line basis over the period in which the group expects to recognise the related revenue, which is between three and 10 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.

4.4 Deferred acquisition costs (DAC)

On long-term investment business
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.

On short-term insurance business
Refer to the short-term insurance contracts section of the accounting policies.

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.

4. INTANGIBLE ASSETS *continued*

4.5 Brand and broker network

Brand and broker network intangible assets have been recognised by the group as part of a business combination. The assets are recognised when they are separately identifiable, it is probable that the future economic benefits will flow to the group and the assets have a cost or value that can be measured reliably.

Measurement

The brand and broker networks are initially measured at fair value. As there is generally no active market for these intangibles, the fair value is determined with reference to the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date, on the basis of the best information available. In determining this amount, the group considers the outcome of recent transactions for similar assets, for example, the group applies multiples reflecting current market transactions to factors that drive the profitability of the asset (such as operating profit and VNB).

Subsequently, the brand and broker networks are amortised over their expected useful lives using the straight-line method. The brands are amortised over 20 years and the broker networks over five to 20 years.

Impairment

The brand and broker networks are 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, being the value in use.

4.6 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 three 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 group 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.

5. OWNER-OCCUPIED PROPERTIES

Owner-occupied properties are held for use in the supply of services or for administrative purposes. Where the group 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 DCF techniques which present value the net rental income, discounted for the different types of properties at the market rates applicable at the reporting date. Where considered necessary, 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.

5. OWNER-OCCUPIED PROPERTIES *continued*

Measurement *continued*

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 group 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 five 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.

Disposals

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

6. INVESTMENT PROPERTIES

Investment properties are held to earn rentals or for capital appreciation or both and are not significantly occupied by the group. Investment properties include property under development for future use as investment property.

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. All properties are internally valued on an annual basis and where considered necessary, significant properties are valued externally by an independent valuator, at least in a three-year cycle, 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. 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 group 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 are 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 group. 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.

7. FINANCIAL ASSETS

Classification

The group 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; or
  - a financial instrument that includes a significant embedded derivative that clearly require bifurcation.
- **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 group 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 is recognised in the statement of financial position when, and only when, the group becomes a party to the contractual provisions of the instrument.

Purchases and sales of financial assets are recognised on trade date, being the date on which the group commits to purchase or sell the financial assets. Financial assets are initially recognised at fair value plus, in the case of a financial asset not at fair value through income, transaction costs that are directly attributable to the acquisition of the asset. Transaction costs that are not recognised as part of the financial asset are expensed in the income statement in net realised and fair value gains. Financial assets 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 group establishes fair value by using valuation techniques disclosed in Annexure E. These include DCF 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.

7. FINANCIAL ASSETS *continued*

Impairment of financial assets

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

  At each reporting date the group 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. Increases in fair value of equity instruments after impairment are recognised in other comprehensive income.

  Debt securities

  For debt securities, the group 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.

- **Financial assets carried at amortised cost – loans and receivables**
  A provision for impairment is established when there is *objective evidence* that the group 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 loss 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 group has transferred substantially all risks and rewards of ownership. The group also derecognises a financial asset when the group 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.

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 assets 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. 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.

7. FINANCIAL ASSETS *continued*

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, and not the collateral security, are reflected in the statement of financial position of the group at year-end. Scrip lending fees received are included under fee income. The group 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 have passed to the group. If the asset is sold, the gain or loss is included in the income statement.

8. 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 DCF 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, subject to the offsetting principles as described under the financial assets accounting policies above.

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 is 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 input becomes observable, or when the derivative matures or is closed out.

The subsequent fair value of exchange-traded derivatives is based on a closing market price 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 group 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 group 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 group 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 as part of net realised and fair value gains and losses, 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.

9. 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.

10. LONG AND SHORT-TERM INSURANCE AND INVESTMENT CONTRACTS

The contracts issued by the group 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 recognition. Insurance contracts are those contracts that transfer significant insurance risk to the group, 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

Investment contracts

Investment contracts are those where only financial risk is transferred.

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.

For *cell captive* business, contracts that transfer financial risk with no significant insurance risk are accounted for as financial instruments (investment contracts designated at fair value through income) eg first-party cells. For these arrangements, only fee income, investment income and net realised and fair value gains are included in the group's income statement. On the statement of financial position, premium debtors and insurance liabilities relating to these arrangements are excluded.

Insurance contracts

Insurance contracts are those under which the group 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 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.

For *cell captive* business, insurance policies are issued in third-party *cell captive* structures or contingency policies. The company also accepts insurance and reinsurance inwards risks directly, eg where the promoter cell shares in the underwriting experience of selected call arrangements. All items relating to these arrangements are included in the group's income statement and statement of financial position, except for contract management fees.

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.

Contracts with DPF

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

10. LONG AND SHORT-TERM INSURANCE AND INVESTMENT CONTRACTS *continued*

Long-term insurance contracts and investment contracts with DPF

Measurement

The liabilities relating to long-term insurance contracts and investment contracts with DPF are measured in accordance with the FSV basis as set out in SAP 104 – Calculation of the value of the assets, liabilities and CAR of long-term insurers. The FSV basis is based on 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, 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.
- Provision is made for the estimated cost of incurred but not yet reported (IBNR) claims for all relevant classes of business as at the reporting date. IBNR provisions are calculated using run-off triangle methods or percentages of premium based on historical experience or else implicit allowance is made where appropriate. Outstanding reported claims are disclosed in other payables.
- 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 APN 110 – 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.

Compulsory and discretionary margins

In the valuation of liabilities, provision is made for the explicit *compulsory margins* as required by SAP 104 – Calculation of the value of the assets, liabilities and CAR 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 group.

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

- Additional BSAs 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 BSA 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 group.

10. LONG AND SHORT-TERM INSURANCE AND INVESTMENT CONTRACTS *continued*

Long-term insurance contracts and investment contracts with DPF *continued*

Compulsory and discretionary margins *continued*

- 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.
- For *cell captive* business, the tax charged to each cell does not always equal the total tax liability of the company since certain cells have calculated tax losses. Instead of crediting the cells with the resulting tax asset, the tax assets are accumulated in a separate cell, and notionally allocated to their respective cells. The amount in this cell is raised as a discretionary margin. In the event that a cell with a tax asset is able to utilise that asset against a future tax liability, the tax asset will be reduced or eliminated accordingly.

Embedded derivatives

The group 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 APN 110, 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 for each insurance portfolio, the carrying amount of the insurance liabilities, measured in accordance with the FSV basis, less any related intangible asset and present VOBA, is adequate in relation to the best-estimate future cash flow liabilities. Best-estimate liabilities are based on best-estimate assumptions in accordance with the FSV basis, but excluding *compulsory margins* as described in SAP 104 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 group with reinsurers under which the group is compensated for losses on one or more contracts issued by the group 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 group is entitled under 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 in terms of reinsurance agreements.

There are three types of reinsurance liabilities:

- The first consists of reinsurance liabilities which are 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.
- The second type consists of reinsurance contracts which the group has with third-party cell owners. The agreements in place with these cell owners are such that the cell owner acts as reinsurer to the group for the business which the cell brings to the group. The risks and rewards of insurance policies relating to these cells are passed on to the cell owner, and the group retains no insurance risk relating to these policies on a net basis. The group therefore has an obligation to pay the net results relating to the insurance business in the cell to the cell owner as a result of these agreements. This obligation is deemed to be a reinsurance arrangement and is disclosed as part of insurance contract liabilities.
- The third type consists of a financial reinsurance agreement with a registered reinsurer, whereby the reinsurer provides upfront funding to a cell within the group, with the cell then repaying this funding over an agreed term. The liability associated with this repayment is disclosed as part of reinsurance contract liabilities and is valued consistently with the DCF approach used for insurance contract liabilities.

10. LONG AND SHORT-TERM INSURANCE AND INVESTMENT CONTRACTS *continued*

Long-term insurance contracts and investment contracts with DPF *continued*

Reinsurance contracts held *continued*

Impairment of reinsurance assets
If there is *objective evidence* that a reinsurance asset is impaired, the group 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 as that adopted for loans and receivables.

Long-term insurance premiums

Insurance premiums and annuity considerations receivable from long-term 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.

Long-term insurance benefits and claims

Insurance benefits and claims relating to long-term 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 other payables. Contingency policy bonuses are included in claims in 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 long-term insurance contracts and investment contracts with DPF and expenses directly related thereto (including bonuses payable to sales staff and the group'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 group 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 properties that are designated at inception as fair value through income. The group follows this approach 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 group 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 without fixed terms, fair value is determined using the current unit values that reflect the fair value of the financial assets contained within the group'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 group 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.

10. LONG AND SHORT-TERM INSURANCE AND INVESTMENT CONTRACTS *continued*

Investment contracts *continued*

Measurement *continued*

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 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 relevant to a market participant, including the passing of time.

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 (DRL)

A 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 the 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.

Short-term insurance contracts

Premiums

Short-term insurance premiums are accounted for when receivable, net of a provision for unearned premiums relating to risk periods that extend to the following year.

Claims

Claims incurred consist of claims and claims handling expenses paid during the financial year together with the movement in the provision for outstanding claims. Outstanding claims comprise provisions for the group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date, whether reported or not. Estimates are calculated based on the most recent cost experience of similar claims and include an appropriate risk margin for unexpected variances between the actual cost and the estimate. Where applicable, deductions are made for salvage and other recoveries.

Unearned premium provision

The provision for unearned premiums represents the proportion of the current year's premiums written that relate to risk periods extending into the following year, computed separately for each insurance contract using the 365th method.

Liability adequacy test

A liability adequacy test is performed annually for the gross liability recognised for insurance contracts and an unexpired risk provision is recognised for any deficiencies arising when unearned premiums are insufficient to meet expected future claims and expenses after taking into account future investment returns on the investments supporting the unearned premium provision. The expected claims are calculated having regard to events that have occurred prior to the reporting date.

Deferred acquisition costs

Acquisition costs comprise all costs arising from the conclusion of insurance contracts and these are expensed as and when incurred. Deferred acquisition costs represent the portion of direct acquisition costs (ie commission) which is deferred and amortised over the term of the contracts as the related services are rendered and revenue recognised.

Outstanding insurance contract claims

Provision is made using prescribed methods set out in Directive 169 of 2011:

- for claims notified but not settled at year-end, using case estimates determined on a claim-by-claim basis; and
- for IBNR claims at year-end, using the prescribed percentages specified by class of business and development period as set out in Directive 169.

11. FINANCIAL LIABILITIES

Recognition and measurement

The group 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
  - a financial instrument that includes a significant embedded derivatives that clearly require bifurcation.

  A financial liability is recognised in the statement of financial position when, and only when, the group 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 group 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 group's own credit risk. These include the use of arm's-length transactions, DCF 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, *carry positions* (refer below), preference shares and collective investment schemes liabilities (representing the units in collective investment schemes where the group consolidates the collective investment schemes and is required to disclose the value of the units not held by the group as liabilities) 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, carry positions and preference shares 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 through 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 group'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.

11. FINANCIAL LIABILITIES *continued*

Recognition and measurement *continued*

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

  Carry positions *continued*

  Conversely, where the group purchases financial instruments subject to a commitment to resell these at a future date and the risk of ownership does not pass to the group, 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 costs and is accrued over the life of the agreement using the *effective interest rate method*.

- **Financial liabilities at amortised cost**

  Financial liabilities that are neither held for trading nor designated at fair value are measured 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*.

  Convertible redeemable preference shares and convertible bonds

  Compound financial instruments issued by the group comprise convertible preference shares that can be converted to ordinary share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. At initial recognition, the fair value of the liability component of the convertible redeemable preference shares is determined by discounting the net present value of future cash flows, net of transaction costs, at market rate at inception for a similar instrument without the conversion option. This amount is recorded as a liability on the amortised cost basis, using the *effective interest rate method*, until extinguished on conversion of the preference shares. The remainder of the proceeds is allocated to the conversion option, which is recognised and included in shareholder equity. The value of the equity component is not changed in subsequent periods. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. The dividends on these preference shares are recognised in the income statement in finance costs.

  Other payables

  Other payables are initially carried at fair value and subsequently at amortised cost using the *effective interest rate method.*

  Derecognition of financial liabilities

  A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing financial liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

12. 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 group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax related to fair value remeasurement of available-for-sale financial assets and post-employment benefit obligations, 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 same taxable entity.

13. 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.

14. INDIRECT TAXATION

Indirect taxes include various other taxes paid to central and local governments, including value added tax (amount that cannot be claimed) and regional service levies. Indirect taxes are disclosed as part of operating expenses in the income statement.

15. LEASES: ACCOUNTING BY LESSEE

Finance leases

Leases of property and equipment where substantially all the risks and rewards incidental to ownership have been transferred to the group are classified as finance leases.

Measurement

- **Asset**
  Finance leases (including direct costs) are capitalised at the lower of the fair value of the leased asset or the present value of the minimum lease payments at inception of the lease. The asset acquired is depreciated over the shorter of the *useful life* of the asset or the lease term.

- **Liability**
  The rental obligation, net of finance charges, is included as a liability. Each lease payment is apportioned between finance charges and the reduction of the outstanding liability. The finance charges or interest are charged to the income statement over the lease term so as to produce a constant periodic rate of interest on the liability remaining for each period.

Operating leases

Leases where substantially all the risks and rewards incidental to ownership have not been transferred to the group 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 group 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.

16. 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.

17. PROVISIONS

Provisions are recognised when, as a result of past events, the group 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.

17. PROVISIONS *continued*

Onerous contracts

The group 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.

18. CONTINGENT LIABILITIES

Contingent liabilities are reflected when the group 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 group, 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.

19. EMPLOYEE BENEFITS

Pension and provident fund obligations

The group 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 group pays fixed contributions into a separate entity. Each member's fund value is directly linked to the contributions and the related investment returns. The group has no legal or constructive obligation 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 group's contributions are charged to the income statement when incurred, except those contributions subsidised by a surplus amount.

- **Defined benefit funds**
  A defined benefit scheme is a 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. Plan assets exclude any insurance contracts issued by the group. 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.

Interest is recognised by applying the discount rate to the net defined benefit asset or liability and is recognised in the income statement. Other expenses related to the defined benefit plans are also recognised 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 group's statement of financial position cannot exceed the present value of any economic benefits available to the group in the form of refunds or reductions in future contributions. In determining the extent to which economic benefits are available to the group the rules of the fund are considered.

Post-retirement medical aid obligations

The group 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.

19. EMPLOYEE BENEFITS *continued*

Termination benefits

The group 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 group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits at the earlier of the following dates: (a) when the group 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.

Short-term benefits

Short-term benefits consist of salaries, accumulated leave payments, bonuses and other benefits such as medical aid contributions. These obligations are measured on an undiscounted basis and are expensed as the service is provided. A liability is recognised for the amount to be paid under bonus plans or accumulated leave if the group 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.

Share-based compensation

The group 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 group 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.

The group 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.

Compensation plans valued on the projected unit credit method

The group has certain schemes in place whereby employees are rewarded based on something other than the shares and related share price of the holding company. In some instances the group recognises a liability that has been measured with reference to a selling price formula in a contract, the share price of an external company or the applicable EV of a subsidiary company, and that will be used to settle the liability with the employees or to repurchase shares in a subsidiary from the employees. The liability in these cases is measured using the projected unit credit method. Any change in the liability is charged to the income statement over the vesting period of the shares.

20. 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 group's primary business being the provision of insurance and investment products, non-current assets held as investments for the benefit of policyholders 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.

21. SHARE CAPITAL

Share capital is classified as equity where the group 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 group 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. For compound instruments, eg convertible redeemable preference shares, the component representing the value of the conversion option at the time of issue is included 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. All other share issue costs are expensed.

Treasury shares

Treasury shares are equity share capital of the holding company held by subsidiaries, consolidated collective investment schemes and share trusts, irrespective of whether they are held in shareholder or contract holder portfolios. The consideration paid, including any directly attributable costs, is eliminated from shareholder equity on consolidation until the shares are cancelled or reissued. If reissued, the difference between the carrying amount and the consideration received for the shares, net of attributable incremental transaction costs and the related income tax effects, is included in share premium.

22. DIVIDENDS PAID

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

23. PUTTABLE NON-CONTROLLING INTERESTS

Puttable non-controlling interests represent put options granted to non-controlling interests of subsidiaries, entitling the non-controlling interests to dispose of their interest in the subsidiaries to the group at contracted dates.

Recognition and measurement

A financial liability at fair value through income is recognised, being the present value of the estimated purchase price value discounted from the expected option exercise date to the reporting date. In raising this liability, the non-controlling interest is derecognised and the excess of the liability is debited to retained earnings.

The estimated purchase price is reconsidered at each reporting date and any change in the value of the liability is recorded in net realised and fair value gains in the income statement. Interest in respect of this liability is calculated using the *effective interest rate method* and recorded within finance costs.

24. INCOME RECOGNITION

Income comprises the fair value of services, net of value added tax, after eliminating income from within the group. Income is recognised as follows:

24.1 Fee income

Contract administration

Fees charged for investment management services provided in conjunction with an investment contract are recognised as income 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 are deferred and released to income 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 group 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.

Health administration fee income

Fees received from the administration of health schemes are recognised in the accounting period in which the services are rendered.

24. INCOME RECOGNITION *continued*

24.1 Fee income *continued*

Other fee income

Administration fees received and multiply fee income are recognised as the service is rendered.

Cell captive fee income includes management fees. Management fees are negotiated with each cell shareholder and are generally calculated as a percentage of premiums received and/or as a percentage of assets. Income is brought to account on the effective commencement or renewal dates of the policies. A portion of the income is deferred to cover the expected servicing costs, together with a reasonable profit thereon and is recognised as a liability. The deferred income is brought to account over the servicing period on a consistent basis reflecting the pattern of servicing activities.

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

24.2 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. Where it is declared out of retained earnings, dividend income includes scrip dividends received, irrespective of whether shares or cash is elected. 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 as no economic benefit is associated with the transaction.

Rental income

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

25. EXPENSE RECOGNITION

25.1 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.

25.2 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*.

26. 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 MMI executive committee that makes strategic decisions. Refer to segmental report for more details.

The group'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 biannually, in line with the group's biannual reporting dates.

The valuation of the group'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)*
- Input 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 (this also refers to the related collective investment scheme liabilities)
- 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. Refer to note 6.8 for details of the instruments split into the different levels.

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

Annexure E (continued)

VALUATION TECHNIQUES *continued*

Instrument *continued*	**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), or published price quotations on JSE equity (preference shares) and interest rate market	Market input, uplifted with inflation
– Listed, foreign	Published price quotations, external valuations that are based on published market input	Market input
– Unlisted	DCF (market-related nominal and real discount rates, prime and dividend return rate, bank and credit default swap curves, three-month JIBAR plus fixed spread), external valuations	Market input and appropriate spread
Funds on deposit and other money market instruments		
– Listed	DCF (market-related yields), issue price, or external valuations	Market input (based on quotes received from market participants and valuation agents)
– Unlisted	Deposit rates, or 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 (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
Preference shares (Liability)	Capital outstanding plus accrued dividends	Contract input

There were no significant changes in the valuation methods applied since the prior year, except for transfers between levels.

Information about fair value measurements using significant unobservable inputs *(level 3)*

Financial assets	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability weighted average)	Relationship of unobservable inputs to fair value
Equity securities				
Foreign listed	Mark to model	Adjustments to market-related inputs as a result of inactivity	Could vary significantly due to the different risks associated with the investee	The greater the adjustments, the higher the fair value
Unlisted	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 price-earnings multiple, the greater the fair value
Stock and loans to government and other public bodies				
Foreign listed	Mark to model	Adjustments to market-related inputs as a result of inactivity	Could vary significantly due to the different risks associated with the investee	The greater the adjustments, the lower the fair value
Unlisted	DCF	Nominal interest rate	8.51% to 9.99% (2016: 8.51% to 9.99%)	The higher the nominal interest rate, the lower the fair value of the assets
Other debt instruments				
Local listed	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
	Mark to model	Adjustments to market-related inputs as a result of inactivity	Could vary significantly due to the different risks associated with the investee	The greater the adjustments, the lower the fair value
	Published price quotations	Market input. Management applies judgment if an adjustment of quoted prices is required due to an inactive market.	Could vary significantly due to the different risks associated with the investee	The greater the adjustments, the lower the fair value

VALUATION TECHNIQUES *continued*

Information about fair value measurements using significant unobservable inputs *(level 3) continued*

Financial assets *continued*	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability weighted average)	Relationship of unobservable inputs to fair value
Other debt instruments (continued)				
Foreign listed	Mark to model	Adjustments to market-related inputs	Could vary significantly due to the different risks associated with the investee	The greater the adjustments, the lower the fair value
Unlisted	DCF	Nominal interest rate	7.82% to 11.35% (2016: 7.56% to 11.5%); 7.16% to 13.98% (2016: 5.45% to 17.11%)	The higher the nominal interest rate, the lower the fair value of the assets
	Mark to model	Adjustments to market-related inputs as a result of inactivity	Could vary significantly due to the different risks associated with the investee	The greater the adjustments, the lower the fair value
	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				
Local unlisted or listed quoted	Net asset value	Fair value of respective assets and liabilities which are adjusted in line with market practice	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV, the greater the fair value
Foreign unlisted quoted	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
Foreign unlisted unquoted	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

Information about fair value measurements using significant unobservable inputs *(level 3) continued*

Financial assets *continued*	**Valuation technique(s)**	**Unobservable inputs**	**Range of unobservable inputs (probability weighted average)**	**Relationship of unobservable inputs to fair value**
Unit-linked investments (continued)				
Other unit-linked investment				
Local unlisted unquoted	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
Foreign unlisted unquoted	Adjusted net asset value method	Price per unit which is based on underlying ABIL investments	Could vary significantly due to range of holdings	The higher the price per unit, the higher the fair value

Financial liabilities	**Valuation technique(s)**	**Unobservable inputs**	**Range of unobservable inputs (probability weighted average)**	**Relationship of unobservable inputs to fair value**
Investment contracts designated at fair value through income	Asset and liability matching method	Asset value	Unit price	The asset value increase will increase the fair value of the liability
Financial liabilities designated at fair value through income				
Collective investment scheme liabilities	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
Other borrowings	DCF	Adjustments to discount rate	Dependent on credit risk and other risk factors	The lower the rate, the higher the fair value
	Mark to model	Adjusted EV	Could vary significantly based on the risks associated with the investee	The higher the EV, the greater the fair value

There were no significant changes in the valuation methods applied since the prior year, except for transfers between levels.

Shareholder profile

SHAREHOLDER	Number of shareholders	% of issued share capital	Shares held (million)
Non-public			
Directors	10	0.6	9
Kagiso Tiso Holdings (Pty) Ltd	2	7.1	114
RMI Holdings Ltd	2	25.0	401
Government Employees Pension Fund	7	8.1	130
Public			
Private investors	19 792	2.7	44
Pension funds	201	3.6	58
Collective investment schemes and mutual funds	3 519	39.8	638
Banks and insurance companies	146	13.1	210
Total	23 679	100.0	1 604

An estimated 403 million shares (2016: 406 million shares) representing 25.1% (2016: 25.3%) of total shares are held by foreign investors.

SIZE OF SHAREHOLDING	Number of shareholders	% of total shareholders	Shares held (million)	% of issued share capital
1 – 5 000	19 742	83.3	19	1.2
5 001 – 10 000	1 541	6.5	11	0.7
10 001 – 50 000	1 461	6.2	32	2.0
50 001 – 100 000	299	1.3	22	1.4
100 001 – 1 000 000	491	2.1	156	9.7
1 000 001 and more	145	0.6	1 364	85.0
Total	23 679	100.0	1 604	100.0

BENEFICIAL OWNERS	Shares held (million)	% of issued share capital
RMI Holdings Ltd	401	25.0
Government Employees Pension Fund	130	8.1
Kagiso Tiso Holdings (Pty) Ltd	114	7.1
Total	645	40.2

Pursuant to the provisions of section 56(7)(b) of the South African Companies Act, 71 of 2008, as amended, beneficial shareholdings exceeding 5% in aggregate, as at 30 June 2017, are disclosed.

Stock exchange **performance**

	2017	2016
12 months		
Value of listed shares traded (rand million)	**20 072**	25 614
Volume of listed shares traded (million)	**863**	1 057
Shares traded (% of average listed shares in issue)	**55**	67
Trade prices		
Highest (cents per share)	**2 669**	3 149
Lowest (cents per share)	**1 920**	1 900
Last sale of period (cents per share)	**2 024**	2 264
Percentage (%) change during year	**(11)**	(25)
Percentage (%) change – life insurance sector (J857)	**(6)**	(6)
Percentage (%) change – top 40 index (J200)	**(1)**	–
30 June		
Price/diluted core headline earnings (segmental) ratio	**10.1**	11.3
Dividend yield % (dividend on listed shares)	**7.8**	6.9
Dividend yield % – top 40 index (J200)	**2.8**	2.9
Total shares issued (million)		
Ordinary shares listed on JSE	**1 575**	1 574
Treasury shares held on behalf of contract holders	**(18)**	(13)
Basic number of shares in issue	**1 557**	1 561
Treasury shares held on behalf of contract holders	**18**	13
Convertible redeemable preference shares	**29**	30
Diluted number of shares in issue[1]	**1 604**	1 604
Market capitalisation at end (Rbn)[2]	**32**	36

[1] The diluted number of shares in issue takes into account all issued shares, assuming conversion of the convertible redeemable preference shares, and includes the treasury shares held on behalf of contract holders.

[2] The market capitalisation is calculated on the fully diluted number of shares in issue.

Shareholder diary

Financial year-end	30 June	
Reporting	Interim results	2 March 2017
	Announcement of year-end results	6 September 2017
	Annual report published	29 September 2017
	Annual general meeting	24 November 2017
Ordinary dividends	**Interim**	
	Declared	1 March 2017
	Remat/Demat	28 March 2017 to 31 March 2017
	Record date	31 March 2017
	Paid	3 April 2017
	Final	
	Declared	5 September 2017
	Remat/Demat	26 September 2017 to 29 September 2017
	Record date	29 September 2017
	Paid	2 October 2017