FINANCIAL STATEMENTS

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MMI HOLDINGS LTD GROUP ANNUAL FINANCIAL STATEMENTS 30 JUNE 2015

The preparation of the group's audited consolidated results was supervised by the group finance director, Mary Vilakazi, CA(SA).

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 only 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 74.

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The annual financial statements, presented on pages 92 to 262, were approved by the board of directors on 8 September 2015 and are signed on its behalf by:

JJ Njeke
Group chairman
Centurion, 8 September 2015

Nicolaas Kruger
Group chief executive officer
Centurion, 8 September 2015

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 2015 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, 8 September 2015

REPORT OF THE INDEPENDENT AUDITORS

TO THE SHAREHOLDERS OF MMI HOLDINGS LTD

We have audited the consolidated and separate financial statements of MMI Holdings Ltd set out on pages 98 to 262, which comprise the statements of financial position as at 30 June 2015, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The company's directors are responsible for the preparation and fair presentation of these 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 misstatements, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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 Ltd as at 30 June 2015, 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.

OTHER REPORTS REQUIRED BY THE COMPANIES ACT

As part of our audit of the consolidated and separate financial statements for the year ended 30 June 2015, we have read the directors' report, the Audit Committee's report and the certificate by the group company secretary for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Andrew Taylor
Registered auditor
Sunninghill, 8 September 2015

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)

The Actuarial Society of South Africa (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 financial soundness valuation 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.

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

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

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 financial soundness valuation 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 financial soundness valuation basis. These margins are held in the contract holder liabilities and released over time in the operating profit should experience be in line with these best-estimate assumptions.

Core headline earnings

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

Cost of required capital

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

Covered business

Covered business is defined as long-term insurance business recognised in the 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 adjusted net worth of covered and non-covered business;
- plus the present value of in-force covered business less the opportunity cost of required capital;
- 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 International Financial Reporting Standards (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.

JSE

The JSE Ltd.

New business profit margin

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

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 becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation
- the disappearance of an active market for that financial asset because of financial difficulties
- observable data that there is a measurable decrease in the estimated future cash flows from the asset since the initial recognition of the asset

Open-ended instruments

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

Prescribed officers

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

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

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

Present value of future premiums (PVP)

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

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

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

Significant influence

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

Statutory basis

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

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

The value of new business is the discounted present value of expected future statutory after-tax profits from new business at point of sale less the cost of required capital at risk. No allowance 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.

REPORT ON THE REVIEW OF THE REPORT ON GROUP EMBEDDED VALUE

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

INTRODUCTION

We have reviewed the report on group embedded value of MMI Holdings Ltd and its subsidiaries (the group) for the year ended 30 June 2015, as set out on pages 79 to 91 (the report). This report should be read in conjunction with the audited consolidated financial statements where the policyholder liabilities are determined in terms of International Financial Reporting Standards, set out on pages 98 to 262. The report is prepared for the purpose of setting out the embedded value of the group for the year ended 30 June 2015. The directors of MMI Holdings Ltd are responsible for the preparation and presentation of the report in accordance with the basis set out on page 79 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.

The internally developed required capital model has not been reviewed.

CONCLUSION

Based on our review, nothing has come to our attention that led us to believe that the report is not prepared, in all material respects, in accordance with the embedded value basis set out on page 79 to the report.

BASIS OF ACCOUNTING AND RESTRICTION ON USE

Without modifying our conclusion, we draw attention to page 79 to the report, which describes the embedded value basis. The report is prepared for the purpose of disclosing the embedded value of the group as at 30 June 2015. As a result, the report may not be suitable for another purpose. Our report is intended solely for the directors of MMI Holdings Ltd and should not be used by any other parties. We agree to the publication of our report in the integrated report of MMI Holdings Ltd for the year ended 30 June 2015 provided it is clearly understood by the recipients of the integrated report 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, 8 September 2015

DEFINITION OF EMBEDDED VALUE

The embedded value report sets out the diluted embedded value, taking into account all shares issued by MMI Holdings Ltd. This report has been prepared in accordance with the embedded value guidance from the Actuarial Society of South Africa (Advisory Practice Note 107).

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

- the adjusted net worth of covered and non-covered business;
- plus the present value of in-force covered business less the opportunity cost of required capital;
- plus the write-up to directors' value of the non-covered business.

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 are added back.

Required capital

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

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.

Risk discount rate

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

Embedded value – Guardrisk

The South African long-term insurer, Guardrisk Life Ltd, was transferred to covered business effective 1 July 2014. This business was included as part of the non-covered directors' valuation of the broader Guardrisk business at 30 June 2014 at R368 million (adjusted net worth of R44 million and write-up of R324 million).

AT 30 JUNE 2015

EMBEDDED VALUE RESULTS	2015 Rm	2014 Rm
Covered business		
Reporting excess – long-term insurance business[1]	17 465	17 392
Reclassification to non-covered business	(1 204)	(1 459)
	16 261	15 933
Disregarded assets[2]	(575)	(682)
Difference between statutory and published valuation methods	(839)	(571)
Dilutory effect of subsidiaries[3]	(38)	(34)
Consolidation adjustments[4]	(5)	(77)
Value of MMI Group Ltd preference shares issued	(500)	(500)
Diluted adjusted net worth – covered business	14 304	14 069
Net value of in-force business	21 696	20 324
Diluted embedded value – covered business	36 000	34 393
Non-covered business		
Net assets – non-covered business within life insurance companies	1 204	1 459
Net assets – non-covered business outside life insurance companies	3 256	2 999
Consolidation adjustments and transfers to covered business[4]	(3 024)	(2 291)
Adjustments for dilution[5]	819	720
Diluted adjusted net worth – non-covered business	2 255	2 887
Write-up to directors' value	2 075	2 395
Non-covered business[1]	4 143	4 188
Holding company expenses[6]	(1 578)	(1 383)
International holding company expenses[6]	(490)	(410)
Diluted embedded value – non-covered business	4 330	5 282
Diluted adjusted net worth	16 559	16 956
Net value of in-force business	21 696	20 324
Write-up to directors' value	2 075	2 395
Diluted embedded value	40 330	39 675
Required capital – covered business (adjusted for qualifying debt)[7]	7 306	7 039
Surplus capital – covered business	6 998	7 030
Diluted embedded value per share (cents)	2 514	2 474
Diluted adjusted net worth per share (cents)	1 032	1 057
Diluted number of shares in issue (million)[8]	1 604	1 604

1 Guardrisk Life Ltd was included as part of non-covered business at 30 June 2014 at a directors' valuation of R368 million. On 1 July 2014 Guardrisk Life Ltd was transferred to covered business (adjusted net worth of R44 million and value of in-force of R324 million).

2 Disregarded assets include Sage intangible assets of R518 million (2014: R546 million), goodwill and various other items.

3 For accounting purposes, Metropolitan Health has been consolidated at 100%, while MMI Holdings Namibia, Metropolitan Kenya and Cannon have been consolidated at 96% in the statement of financial position, for the current year. For embedded value purposes, disclosed on a diluted basis, the non-controlling interests and related funding have been reinstated.

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

5 Adjustments for dilution are made up as follows:
- Dilutory effect of subsidiaries (note 3): R103 million (2014: R102 million)
- Treasury shares held on behalf of contract holders: R424 million (2014: R305 million)
- Liability – MMI Holdings Ltd convertible preference shares issued to Kagiso Tiso Holdings: R292 million (2014: R313 million)

6 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.

7 The required capital for covered business amounts to R10 604 million (2014: R10 114 million) and is adjusted for qualifying debt of R3 298 million (2014: R3 075 million).

8 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.

ANALYSIS OF NET VALUE OF IN-FORCE BUSINESS PER DIVISION	2015 Rm	2014 Rm
Momentum Retail	**10 062**	9 674
Gross value of in-force business	**11 486**	11 212
Less: cost of required capital	**(1 424)**	(1 538)
Metropolitan Retail	**3 661**	3 738
Gross value of in-force business	**4 374**	4 445
Less: cost of required capital	**(713)**	(707)
Momentum Employee Benefits[1]	**5 200**	4 242
Gross value of in-force business	**5 954**	4 892
Less: cost of required capital	**(754)**	(650)
International	**2 108**	1 832
Gross value of in-force business	**2 310**	2 006
Less: cost of required capital	**(202)**	(174)
Shareholder Capital	**665**	838
Gross value of in-force business[2]	**665**	838
Less: cost of required capital	**–**	–
Net value of in-force business	**21 696**	20 324

1 Guardrisk Life Ltd is included within Momentum Employee Benefits at 30 June 2015. The business was transferred effective 1 July 2014 with gross value of in-force of R348 million less cost of capital of R24 million at that date.

2 The value of in-force in Shareholder Capital represents discretionary margins managed centrally by Balance Sheet Management.

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Shareholder reports

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AT 30 JUNE 2015

EMBEDDED VALUE PER DIVISION	Adjusted net worth Rm	Net value of in-force Rm	2015 Rm	2014 Rm
Covered business				
South African life licences	12 452	19 588	32 040	31 053
MMI Group Ltd	12 280	19 052	31 332	30 994
Guardrisk Life Ltd[1]	113	536	649	–
Metropolitan Odyssey Ltd	59	–	59	59
International	1 852	2 108	3 960	3 340
MMI Holdings Namibia Ltd	677	1 295	1 972	1 793
Metropolitan Life of Botswana Ltd	354	217	571	341
Metropolitan Lesotho Ltd	370	477	847	783
Other international businesses	451	119	570	423
Total covered business	14 304	21 696	36 000	34 393

	Adjusted net worth Rm	Write-up to directors' value Rm	2015 Rm	2014 Rm
Non-covered business				
Momentum Investments[2]	1 007	1 158	2 165	1 928
Health businesses[3]	445	1 215	1 660	1 761
Momentum Retail (Wealth)[3]	344	473	817	655
Guardrisk business[1, 3]	448	998	1 446	1 607
Momentum Short-term Insurance (MSTI)	295	82	377	319
International[4, 5]	(532)	(273)	(805)	(386)
MMI Holdings Ltd (after consolidation adjustments)[5]	248	(1 578)	(1 330)	(602)
Total non-covered business	2 255	2 075	4 330	5 282
Total embedded value	16 559	23 771	40 330	39 675
Diluted adjusted net worth – non-covered business	(2 255)			
Adjustments to covered business – adjusted net worth	3 161			
Reporting excess – long-term insurance business	17 465			

1 Guardrisk Life Ltd was included as part of non-covered business at 30 June 2014 at a directors' valuation of R368 million. On 1 July 2014 Guardrisk Life Ltd was transferred to covered business (adjusted net worth of R44 million and value of in-force of R324 million).
2 Momentum Investments subsidiaries are valued using forward price-earnings multiples applied to the relevant sustainable earnings bases.
3 The Health businesses, Momentum Retail (Wealth off-balance sheet) and Guardrisk are valued using embedded value methodology.
4 Cannon is included within International's non-covered business at 30 June 2015.
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.

ANALYSIS OF CHANGES IN GROUP EMBEDDED VALUE	Notes	Covered business ANW Rm	Gross VIF Rm	Cost of CAR Rm	12 months to 30.06.2015 Total EV Rm	12 months to 30.06.2014 Total EV Rm
Profit from new business		(1 345)	2 615	(216)	1 054	875
Embedded value from new business	A	(1 345)	2 513	(214)	954	779
Expected return to end of period	B	–	102	(2)	100	96
Profit from existing business		4 289	(1 162)	136	3 263	3 228
Expected return – unwinding of risk discount rate	B	–	2 551	(338)	2 213	1 786
Release from the cost of required capital	C	–	–	445	445	407
Expected (or actual) net of tax profit transfer to net worth	D	4 128	(4 128)	–	–	–
Operating experience variances	E	474	261	(34)	701	544
Development expenses	F	(79)	–	–	(79)	–
Operating assumption changes	G	(234)	154	63	(17)	491
Embedded value profit from operations		2 944	1 453	(80)	4 317	4 103
Investment return on adjusted net worth	H	664	–	–	664	1 063
Investment variances	I	61	(494)	27	(406)	1 278
Economic assumption changes	J	(23)	12	69	58	(321)
Exchange rate movements		(12)	4	1	(7)	(2)
Embedded value profit – covered business		3 634	975	17	4 626	6 121
Transfer of business from/(to) non-covered business	K	202	348	(27)	523	(6)
Changes in share capital	L	143	73	(14)	202	42
Dividend paid		(3 744)	–	–	(3 744)	(3 271)
Change in embedded value – covered business		235	1 396	(24)	1 607	2 886
Non-covered business						
Change in directors' valuation and other items					(557)	718
Holding company expenses					(275)	(175)
Embedded value profit – non-covered business					(832)	543
Changes in share capital	L				(202)	(42)
Dividend paid					649	1 179
Finance costs – preference shares					(44)	(45)
Transfer of business (to)/from covered business	K				(523)	6
Change in embedded value – non-covered business					(952)	1 641
Total change in group embedded value					655	4 527
Total embedded value profit					3 794	6 664
Return on embedded value (%) – internal rate of return					9.6	19.0

Introduction

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A. VALUE OF NEW BUSINESS

The value of new business is calculated as the discounted value, at point of sale, using a risk-adjusted discount rate, of the projected stream of after-tax profits for new covered business issued during the financial year under review. The value of new business is also reduced by the cost of required capital for new covered business. In determining the value of new 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 value of new business
- 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 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
- for cell captive business, increases in business from new cells or new benefits in existing cells are included as new business; but new members or salary-related increases under existing cells are allowed for in the value of existing in-force business
- renewable recurring premiums under group insurance contracts are treated as in-force covered business

RECONCILIATION OF LUMP SUM INFLOWS	12 months to 30.06.2015 Rm	Restated 12 months to 30.06.2014 Rm
Total lump sum inflows	**33 023**	29 790
Inflows not included in value of new business	**(8 966)**	(8 670)
Term extensions on maturing policies	**558**	465
Retirement annuity proceeds invested in living annuities	**822**	–
Non-controlling interests and other adjustments	**110**	(17)
Single premiums included in value of new business	**25 547**	21 568

1 The Metropolitan Retail APE and PVP have been changed to only reflect the initial inflows on certain early retirement annuity business (comparatives have been restated). This reduced APE by R64 million (2014: R42 million) and PVP by R635 million (2014: R424 million). This had no impact on value of new business.

VALUE OF NEW BUSINESS 12 months to 30.06.2015	Momentum Retail Rm	Metropolitan Retail [1] Rm	Momentum Employee Benefits Rm	International Rm	Total Rm
Value of new business	246	186	456	66	954
Gross	305	233	552	78	1 168
Less: cost of required capital	(59)	(47)	(96)	(12)	(214)
New business premiums	18 138	2 460	8 351	686	29 635
Recurring premiums	1 077	1 045	1 564	402	4 088
Single premiums	17 061	1 415	6 787	284	25 547
New business premiums (APE)	2 783	1 187	2 243	430	6 643
New business premiums (PVP)	22 924	5 117	20 191	2 164	50 396
Profitability of new business as a percentage of APE	8.8	15.7	20.3	15.3	14.4
Profitability of new business as a percentage of PVP	1.1	3.6	2.3	3.0	1.9

Restated 12 months to 30.06.2014	Momentum Retail Rm	Metropolitan Retail [1] Rm	Momentum Employee Benefits Rm	International Rm	Total Rm
Value of new business	240	236	254	49	779
Gross	312	276	299	61	948
Less: cost of required capital	(72)	(40)	(45)	(12)	(169)
New business premiums	15 948	2 160	6 384	541	25 033
Recurring premiums	1 022	1 083	1 033	327	3 465
Single premiums	14 926	1 077	5 351	214	21 568
New business premiums (APE)	2 515	1 191	1 568	348	5 622
New business premiums (PVP)	20 434	4 948	14 491	1 866	41 739
Profitability of new business as a percentage of APE	9.5	19.8	16.2	14.1	13.9
Profitability of new business as a percentage of PVP	1.2	4.8	1.8	2.6	1.9

1 The Metropolitan Retail APE and PVP have been changed to only reflect the initial inflows on certain early retirement annuity business (comparatives have been restated). This reduced APE by R64 million (2014: R42 million) and PVP by R635 million (2014: R424 million). This had no impact on value of new business.

2 Value of new business and new business premiums are net of non-controlling interests.

3 The value of new business 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 end of the year have been used.

A. VALUE OF NEW BUSINESS *continued*

ANALYSIS OF NEW BUSINESS PREMIUMS 12 months to 30.06.2015	Momentum Retail Rm	Metropolitan Retail[1] Rm	Momentum Employee Benefits Rm	International Rm	Total Rm
New business premiums	**18 138**	**2 460**	**8 351**	**686**	**29 635**
Recurring premiums	**1 077**	**1 045**	**1 564**	**402**	**4 088**
Risk	**509**	**668**	**843**	**–**	**2 020**
Savings/investments	**568**	**377**	**721**	**–**	**1 666**
International	**–**	**–**	**–**	**402**	**402**
Single premiums	**17 061**	**1 415**	**6 787**	**284**	**25 547**
Savings/investments	**16 418**	**277**	**4 652**	**–**	**21 347**
Annuities	**643**	**1 138**	**2 135**	**–**	**3 916**
International	**–**	**–**	**–**	**284**	**284**
New business premiums (APE)	**2 783**	**1 187**	**2 243**	**430**	**6 643**
Risk	**509**	**668**	**843**	**–**	**2 020**
Savings/investments	**2 210**	**405**	**1 186**	**–**	**3 801**
Annuities	**64**	**114**	**214**	**–**	**392**
International	**–**	**–**	**–**	**430**	**430**

Restated 12 months to 30.06.2014	Momentum Retail Rm	Metropolitan Retail[1] Rm	Momentum Employee Benefits Rm	International Rm	Total Rm
New business premiums	15 948	2 160	6 384	541	25 033
Recurring premiums	1 022	1 083	1 033	327	3 465
Risk	501	713	408	–	1 622
Savings/investments	521	370	625	–	1 516
International	–	–	–	327	327
Single premiums	14 926	1 077	5 351	214	21 568
Savings/investments	14 130	201	4 198	–	18 529
Annuities	796	876	1 153	–	2 825
International	–	–	–	214	214
New business premiums (APE)	2 515	1 191	1 568	348	5 622
Risk	501	713	408	–	1 622
Savings/investments	1 934	390	1 045	–	3 369
Annuities	80	88	115	–	283
International	–	–	–	348	348

[1] The Metropolitan Retail APE and PVP have been changed to only reflect the initial inflows on certain early retirement annuity business (comparatives have been restated). This reduced APE by R64 million (2014: R42 million) and PVP by R635 million (2014: R424 million). This had no impact on value of new business.

Changes in bases and assumptions

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

Assumptions

The main assumptions used in the embedded value calculations are described below.

Principal assumptions (South Africa)[1]	2015 %	2014 %
Pre-tax investment return		
Equities	**12.1**	12.0
Properties	**9.6**	9.5
Government stock	**8.6**	8.5
Other fixed-interest stocks	**9.1**	9.0
Cash	**7.6**	7.5
Risk-free return[2]	**8.6**	8.5
Risk discount rate (RDR)	**10.9**	10.8
Investment return (before tax) – balanced portfolio[2]	**10.8**	10.7
Expense inflation base rate[3]	**6.8**	6.7

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 The risk-free return was determined with reference to the market interest rate on South African government bonds at the valuation date. The investment return on balanced portfolio business was calculated by applying the above returns to an expected long-term asset distribution.

3 An additional 1% expense inflation is allowed for in some divisions to reflect the impact of closed books that are in run-off.

Non-economic

The embedded value calculation uses the same best estimate assumptions with respect to future experience as those used in the financial soundness valuation.

The embedded value of in-force business includes the expected value of future premium increases resulting from premium indexation arrangements on in-force business. The value of new business 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 risk discount rate applicable at the beginning of the reporting year to the present value of in-force covered business at the beginning of the reporting year and adding the expected return on new business, which is determined by applying the current risk discount rate to the value of new business 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 risk discount rate 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 adjusted net worth is calculated on the statutory valuation method.

E. OPERATING EXPERIENCE VARIANCES

	12 months to 30.06.2015 ANW Rm	Net VIF Rm	Embedded value Rm	12 months to 30.06.2014 Embedded value Rm
Momentum Retail	**76**	**153**	**229**	170
Mortality and morbidity[1]	296	12	308	235
Terminations, premium cessations and policy alterations[2]	(211)	129	(82)	5
Expense variance	(35)	–	(35)	43
Other	26	12	38	(113)
Metropolitan Retail	**144**	**3**	**147**	39
Mortality and morbidity[1]	82	10	92	108
Terminations, premium cessations and policy alterations	2	(24)	(22)	(60)
Expense variance	28	–	28	45
FNB Life – share of profits	38	–	38	30
Other	(6)	17	11	(84)
Momentum Employee Benefits	**65**	**7**	**72**	218
Mortality and morbidity[1]	69	6	75	60
Terminations	4	14	18	138
Expense variance	(2)	–	(2)	21
Other	(6)	(13)	(19)	(1)
International	**58**	**61**	**119**	102
Mortality and morbidity[1]	88	21	109	86
Terminations, premium cessations and policy alterations	(14)	3	(11)	17
Expense variance	(30)	2	(28)	6
Other[3]	14	35	49	(7)
Shareholder Capital[4]	**131**	**24**	**155**	86
Opportunity cost of required capital	–	(21)	(21)	(71)
Total operating experience variances	**474**	**227**	**701**	544

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 termination experience on whole life insurance contracts as well as negative persistency on investment contracts contributed to the negative termination experience.
3 Mainly contributions from Health operations.
4 Shareholder Capital includes mainly earnings from activities in respect of the management of MMI's capital and shareholder balance sheet risks. Other sources of earnings such as variations in actual tax payments and corporate expenses not allocated to underlying business units are also included here.

F. DEVELOPMENT EXPENSES

Business development expenses, comprising mainly middle market and other initiatives within Momentum Retail.

G. OPERATING ASSUMPTION CHANGES

	12 months to 30.06.2015			12 months to 30.06.2014
	ANW Rm	Net VIF Rm	Embedded value Rm	Embedded value Rm
Momentum Retail	**(164)**	**147**	**(17)**	12
Mortality and morbidity assumptions[1]	169	57	226	80
Termination assumptions	–	(37)	(37)	(51)
Renewal expense assumptions[2]	(138)	59	(79)	(30)
Modelling, methodology and other changes[3]	(195)	68	(127)	13
Metropolitan Retail	**97**	**(37)**	**60**	(129)
Mortality and morbidity assumptions[1]	75	23	98	101
Termination assumptions	43	(64)	(21)	(85)
Renewal expense assumptions[2]	34	(7)	27	87
FNB Life	–	–	–	(91)
Modelling, methodology and other changes[3]	(55)	11	(44)	(141)
Momentum Employee Benefits	**(63)**	**37**	**(26)**	461
Mortality and morbidity assumptions[4]	(3)	(72)	(75)	(23)
Termination assumptions[5]	–	81	81	144
Renewal expense assumptions[2]	–	(101)	(101)	366
Modelling, methodology and other changes[3]	(60)	129	69	(26)
International	**91**	**(5)**	**86**	15
Mortality and morbidity assumptions[1]	26	22	48	(7)
Termination assumptions	5	(9)	(4)	10
Renewal expense assumptions	28	(6)	22	17
Modelling, methodology and other changes[3]	32	(12)	20	(5)
Shareholder Capital[6]	**(195)**	**86**	**(109)**	(7)
Methodology change: cost of required capital	–	(11)	(11)	139
Total operating assumption changes	**(234)**	**217**	**(17)**	491

1 Allowance for better than assumed mortality experience on risk business.
2 Allowance for unit costs in line with budgeted renewal expenses and expected business volumes.
3 Various modelling and methodology changes, including more explicit allowances for reinsurance modelling at Momentum Retail.
4 Allowance for lower future profitability on income disability and group life business.
5 Allowance for better than assumed termination experience on FundsAtWork business.
6 More explicit allowance for Balance Sheet Management future expenses and enhancements to shareholder investment assets in the cost of required capital.

H. INVESTMENT RETURN ON ADJUSTED NET WORTH

	12 months to 30.06.2015 Rm	12 months to 30.06.2014 Rm
Investment income	**618**	722
Capital appreciation and other	**77**	368
Preference share dividends paid and change in fair value of preference shares	**(31)**	(27)
Investment return on adjusted net worth	**664**	1 063

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 risk discount rate in respect of local and offshore business.

K. TRANSFER OF BUSINESS (TO)/FROM NON-COVERED BUSINESS

This transfer includes the transfer of Guardrisk Life Ltd to covered business (ie adjusted net asset value of R44 million and net value of in-force of R324 million at 1 July 2014) as well as the alignment of net assets and value of in-force of mainly international subsidiaries between covered and non-covered business.

L. CHANGES IN SHARE CAPITAL

Changes in share capital include the purchase of the non-controlling interest shareholding in Metropolitan Botswana and recapitalisation of some of the health entities.

SENSITIVITY OF THE IN-FORCE VALUE AND THE VALUE OF NEW BUSINESS

This section illustrates the effect of different assumptions on the adjusted net worth, the value of in-force business, the value of new business 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 risk discount rate" sensitivity, the central risk discount rate has been used.

The table below shows the impact on the embedded value (adjusted net worth, value of in-force and cost of required capital) and value of new business (gross and net of the cost of required capital) of a 1% change in the risk discount rate. 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.

COVERED BUSINESS: SENSITIVITIES – 30.06.2015	Adjusted net worth Rm	In-force business Net VIF Rm	Gross VIF Rm	Cost of required capital[3] Rm	New business written Net VNB Rm	Gross VNB Rm	Cost of required capital[3] Rm
Base value	14 304	21 696	24 789	(3 093)	954	1 168	(214)
1% increase in risk discount rate		19 891	23 399	(3 508)	796	1 031	(235)
% change		(8)	(6)	13	(17)	(12)	10
1% reduction in risk discount rate		23 737	26 365	(2 628)	1 141	1 331	(190)
% change		9	6	(15)	20	14	(11)
10% decrease in future expenses		22 805	25 898	(3 093)	1 066	1 280	(214)
% change[1]		5	4	–	12	10	–
10% decrease in lapse, paid-up and surrender rates		22 505	25 622	(3 117)	1 107	1 337	(230)
% change		4	3	1	16	14	7
5% decrease in mortality and morbidity for assurance business		23 217	26 310	(3 093)	1 124	1 338	(214)
% change		7	6	–	18	15	–
5% decrease in mortality for annuity business		21 310	24 438	(3 128)	945	1 159	(214)
% change		(2)	(1)	1	(1)	(1)	–
1% reduction in gross investment return, inflation rate and risk discount rate	14 247	22 260	25 349	(3 089)	1 023	1 237	(214)
% change[2]	–	3	2	–	7	6	–
1% reduction in inflation rate		22 421	25 514	(3 093)	1 043	1 257	(214)
% change		3	3	–	9	8	–
10% fall in market value of equities and properties	13 987	20 626	23 624	(2 998)			
% change	(2)	(5)	(5)	(3)			
10% reduction in premium indexation take-up rate		21 423	24 480	(3 057)	924	1 139	(215)
% change		(1)	(1)	(1)	(3)	(2)	–
10% decrease in non-commission-related acquisition expenses					1 056	1 270	(214)
% change					11	9	–
1% increase in equity/property risk premium		22 135	25 206	(3 071)	991	1 205	(214)
% change		2	2	(1)	4	3	–

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.

DIRECTORS’ REPORT

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 2015.

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 Ltd and the Namibian Stock Exchange.

CORPORATE EVENTS

Acquisitions

On 2 October 2014, the group acquired an accounting ownership of 71% (legal ownership of 66%) of Cannon Assurance Ltd (Cannon), a composite insurer, for R308 million. The minority shareholders of Cannon also acquired a minority stake in Metropolitan Life Kenya. On 19 November 2014, the group acquired 100% of the shares in the CareCross Health Group (CareCross), a health administrator, for R300 million in cash. It includes a majority share in Occupational Care South Africa (OCSA). Refer to note 38 for more details.

Listed debt

MMI Group Ltd (MMIGL) listed new instruments to the total value of R750 million on the JSE Ltd on 1 December 2014. The instruments are unsecured subordinated callable notes. Refer to note 18 for more details. On 15 December 2014, R500 million of unsecured subordinated notes previously issued by MMIGL were redeemed. Refer to note 19 for more details.

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 Ltd 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 on page 122, including changes in estimates that are an integral part of the insurance business.

The current year includes Guardrisk Group (Pty) Ltd and its subsidiaries’ (collectively “Guardrisk’s”) results for 12 months, while the prior year includes four months (3 March 2014 to 30 June 2014). The current year also includes the results from the effective date of acquisitions made during the year. Certain aspects of the group results are therefore not directly comparable.

Reclassifications

The group June 2014 results have been restated for certain reclassifications. Refer to page 103 for detail.

Segmental information

The current MMI results disclose the segmental information based on the way the business is managed and presented to the MMI Executive Committee (chief operating decision-maker).

The group operated through the following divisions: Momentum Retail; Metropolitan Retail; Momentum Employee Benefits; International; Momentum Investments; Metropolitan Health; and Shareholder Capital (which includes Momentum Short-term Insurance, the Balance Sheet Management business unit, MMI Rewards, other support services and growth initiatives).

MMI is in the process of phasing in a new client-centric operating model announced in March 2014. The disclosure in the financial statements is consistent with that of the 2014 year-end. Appropriate changes in financial reporting will be introduced as the group progresses with the operating model implementation.

CORPORATE GOVERNANCE

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

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The group had no material capital commitments at 30 June 2015 other than what is disclosed in note 39. The group is party to legal proceedings in the ordinary course of business, and appropriate provisions are made when losses are expected to materialise.

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 R2 857 million (2014: R3 197 million) and R2 885 million (2014: R3 245 million) respectively. Group diluted core headline earnings were R3 836 million (2014: R3 621 million) and diluted core headline earnings per share 239.2 cents (2014: 225.7 cents). Refer to note 36 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:

	2015		2014	
Analysis of diluted core headline earnings	**Rm**	**% of total**	**Rm**	**% of total**
Momentum Retail	**1 531**	**40**	1 372	38
Metropolitan Retail	**738**	**19**	587	16
Momentum Employee Benefits	**660**	**17**	516	14
International	**152**	**4**	122	3
Momentum Investments	**181**	**5**	197	6
Metropolitan Health	**209**	**5**	171	5
Shareholder Capital	**365**	**10**	656	18
Total per segmental report	**3 836**	**100**	3 621	100

SUBSIDIARIES AND ASSOCIATES

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

SHARE CAPITAL

Share issue

During the current year 2 147 055 A3 preference shares were converted into ordinary shares. Refer to note 13 for more details. There were no share issues or share repurchases in the current year. There were no changes in the authorised or issued share capital of MMI Holdings Ltd during the prior financial 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 21.2(b) 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 13.

SHAREHOLDER DIVIDEND

MMI Holdings Ltd – ordinary share dividend

The following dividends were declared during the current year:

	2015 cents per share	2014 cents per share
Interim – March	**63**	57
Final – September	**92**	85
Total	**155**	142
Special dividend – September		50

SHAREHOLDER DIVIDEND *continued*

MMI Holdings Ltd – ordinary share dividend *continued*

The dividend policy for ordinary listed shares, approved by the directors, is to provide shareholders with stable dividend growth, reflecting the board's long-term view on the expected underlying basic core headline earnings growth. Exceptions will be made from time to time in order to account for, inter alia, volatile investment markets, capital requirements and changes in legislation.

On 8 September 2015, a gross final dividend of 92 cents per ordinary share was declared, resulting in a total dividend of 155 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, 2 October 2015, and will be paid on Monday, 5 October 2015. The dividend will be subject to local dividend withholding tax at a rate of 15% 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 78.2 cents per ordinary share for those shareholders who are not exempt from paying dividend tax.

The last day to trade cum dividend will be Friday, 25 September 2015. The shares will trade ex dividend from the start of business on Monday, 28 September 2015. Share certificates may not be dematerialised or rematerialised between Monday, 28 September 2015 and Friday, 2 October 2015, both days inclusive. The number of ordinary shares in issue at the declaration date was 1 571 950 755. 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 R21.3 million (2014: R22.8 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 A3 MMI Holdings Ltd preference shares are redeemable in June 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. On each of 13 November 2014 and 31 March 2015, 1.1 million preference shares were converted into ordinary shares. The ordinary shares were originally issued at a price of R10.18 per share. Refer to note 19.1 for more details. Dividends are still payable on the remaining preference shares at 132 cents per annum (payable March and September).

SHAREHOLDERS

Details of the group's shareholders are provided in the shareholder profile section of this report on page 261.

DIRECTORATE, SECRETARY AND AUDITOR

	Appointment	Resignations
Mr PE Speckmann *(retired)*		**30 June 2015**
Ms NDL Motsei		**30 June 2015**
Ms M Vilakazi	**1 July 2015**	
Mr SE Nxasana *(retired)*		**30 September 2015**

Detailed information regarding the directors and group company secretary of MMI Holdings Ltd is provided on pages 34 and 35 in the corporate governance 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 L Crouse, Mr J Burger and Mr KC Shubane are non-executive directors, has a direct holding of 24.5% 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 2015:

- a 7.1% interest in MMI Holdings Ltd (32 million MMI Holdings Ltd preference shares and 82 million listed MMI Holdings Ltd ordinary shares)
- a 17.6% interest in Metropolitan Health Corporate (Pty) Ltd
- a 21.2% interest in Eris Property Group (Pty) Ltd
- a 20% interest in Metropolitan Retirement Administrators (Pty) Ltd. The 20% interest was sold to MMI Holdings Ltd effective 1 July 2015.

DIRECTORS' SHAREHOLDING

The aggregate direct and indirect holdings in MMI Holdings Ltd of the directors of the company at 30 June 2015 are set out below.

	Direct Beneficial '000	Indirect Beneficial '000	Total 2015 '000	Total 2014 '000
Listed				
Executive directors	**64**	**315**	**379**	779
Non-executive directors	**142**	**1 932**	**2 074**	2 146
	206	**2 247**	**2 453**	2 925

Refer to page 261 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 Ltd is set out on pages 58 and 59 in the corporate governance report.

The aggregate direct and indirect holdings of the directors in RMI Holdings Ltd shares at 30 June 2015 are set out below.

	Direct Beneficial '000	Indirect Beneficial '000	Total 2015 '000	Total 2014 '000
Listed				
Executive directors	**–**	**–**	**–**	72
Non-executive directors	**51**	**1 353**	**1 404**	1 502
	51	**1 353**	**1 404**	1 574

The above directors' effective MMI Holdings Ltd shareholding amounts to 0.02% (2014: 0.02%).

DIRECTORS' EMOLUMENTS

The executive directors have standard employment contracts with the company or its subsidiaries, with an array of notice periods ranging from four weeks to three months. There are no additional costs to the group. The aggregate remuneration of the MMI Holdings Ltd directors for the period ended 30 June 2015, is set out below. The detail in terms of the Listings Requirements of the JSE Ltd is set out on pages 52 to 61 in the corporate governance report.

	Fees R'000	Annual package R'000	Bonus[1] R'000	Long-term incentive payments R'000	Pension fund contributions R'000	Total 2015 R'000	Total 2014 R'000
Executive	–	47 536	10 176	21 467	863	**80 042**	71 803
Non-executive	15 920	–	–	–	–	**15 920**	15 877
Total	15 920	47 536	10 176	21 467	863	**95 962**	87 680

1 Bonus payments relate to the 2014 financial year's bonus.

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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

On 8 July the group announced that it entered into an agreement with a group of key individuals from Momentum Asset Management for a management buy-out of a portion of the asset management business. This marks one of the initial steps in the implementation of MMI's client-centric outcomes-based investment model and a key empowerment initiative.

This buy-out will enable these individuals to establish a new majority black-owned and controlled asset management business, in which MMI will be a shareholder. The transaction will be financed by both MMI and the key individuals.

On 12 August 2015, MMIGL issued listed new instruments to the value of R1.25 billion on the JSE Ltd and will be redeeming R1 billion of the existing issued subordinated debt that becomes callable during September 2015. The newly issued instruments are unsecured subordinated callable notes.

Subsequent to the financial year-end, Metropolitan Health, which was party to a competitive tender process regarding the administration contracts of two existing clients, was informed that these two clients had decided not to renew these contracts. The contracts will terminate effective 1 January 2016. Management is in the process of assessing the financial impact of the loss of these contracts on the business.

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

STATUTORY EXCESS

AT 30 JUNE 2015

	2015 Rm	2014 Rm
REPORTING BASIS		
Group excess per reporting basis	**24 547**	24 734
Net assets – other businesses	**(3 256)**	(2 999)
Fair value adjustments on Metropolitan business acquisition and other consolidation adjustments	**(3 826)**	(4 343)
Excess – long-term insurance business, net of non-controlling interests[1]	**17 465**	17 392
Disregarded assets[2]	**(1 010)**	(966)
Difference between statutory and published valuation methods	**(839)**	(571)
Write-down of subsidiaries and associates for statutory purposes	**(1 210)**	(1 387)
Unsecured subordinated debt	**3 320**	3 075
Consolidation adjustments	**141**	(23)
Statutory excess – long-term insurance business	**17 867**	17 520
Capital adequacy requirement (CAR)[3]	**6 639**	6 221
Ratio of long-term insurance business excess to CAR (times)	**2.7**	2.8
Discretionary margins	**13 620**	14 161

[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 including 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) due to it being classified as non-covered, as well as the other non-life insurance entities. Guardrisk Life Ltd was transferred to covered business 1 July 2014, with a statutory excess of R44 million and capital adequacy requirement of R20 million. 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 R518 million (2014: R546 million).

[3] Aggregation of separate company's CARs, with no assumption of diversification benefits.

STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2015

	2015 Rm	Restated 2014 Rm	Notes
ASSETS			
Intangible assets	**13 153**	12 819	1
Owner-occupied properties	**3 030**	1 714	2
Property and equipment	**353**	315	3
Investment properties	**7 212**	7 675	4
Investments in associates	**145**	179	5
Employee benefit assets	**408**	405	21.1
Financial instruments			
Securities designated at fair value through income	**365 727**	334 996	6.1
Investments in associates designated at fair value through income	**12 362**	11 900	6.2
Derivative financial instruments	**2 033**	2 362	6.3
Available-for-sale	**208**	129	6.4
Held-to-maturity	**73**	100	6.5
Loans and receivables	**7 855**	5 586	7
Reinsurance contract assets	**3 046**	2 778	8
Deferred income tax	**287**	263	9
Properties under development	**330**	252	10
Insurance and other receivables	**4 080**	3 813	11
Current income tax assets	**365**	330	25.1
Cash and cash equivalents	**26 174**	28 875	12
Non-current assets held for sale	**–**	17	24
Total assets	**446 841**	414 508	
EQUITY			
Equity attributable to owners of the parent	**24 547**	24 734	
Share capital	**13 804**	13 791	13
Other components of equity	**1 866**	1 802	14
Retained earnings	**8 877**	9 141	
Non-controlling interests	**501**	480	
Total equity	**25 048**	25 214	
LIABILITIES			
Insurance contract liabilities			
Long-term insurance contracts	**104 746**	106 039	15.1
Short-term insurance contracts	**6 553**	5 496	15.2
Capitation contracts	**30**	8	15
Financial instruments			
Investment contracts	**246 490**	227 056	
– with discretionary participation features (DPF)	**26 134**	25 405	16.1
– designated at fair value through income	**220 356**	201 651	16.2
Designated at fair value through income	**39 720**	30 801	18
Derivative financial instruments	**2 111**	1 853	6.3
Amortised cost	**1 092**	1 463	19
Reinsurance contract liabilities	**659**	202	20
Deferred income tax	**4 351**	4 281	9
Employee benefit obligations	**1 735**	1 246	21.2
Other payables	**14 062**	10 437	22
Provisions	**78**	157	23
Current income tax liabilities	**166**	255	25.1
Total liabilities	**421 793**	389 294	
Total equity and liabilities	**446 841**	414 508	

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2015

	2015 Rm	2014 Rm	Notes
Insurance premiums	**35 297**	28 118	
Insurance premiums ceded to reinsurers	**(7 901)**	(4 980)	
Net insurance premiums	**27 396**	23 138	26
Fee income	**7 355**	6 567	27
Investment contracts	**2 225**	1 772	
Trust and fiduciary services	**1 842**	2 014	
Health administration	**2 053**	1 978	
Other fee income	**1 235**	803	
Investment income	**15 559**	14 043	28
Net realised and fair value gains	**16 248**	43 906	29
Net income	**66 558**	87 654	
Insurance benefits and claims	**28 636**	24 327	
Insurance claims recovered from reinsurers	**(4 026)**	(2 006)	
Net insurance benefits and claims	**24 610**	22 321	30
Change in actuarial liabilities and related reinsurance	**(869)**	7 850	
Change in long-term insurance contract liabilities	**(2 069)**	7 786	15.1
Change in short-term insurance contract liabilities	**(139)**	(72)	15.2
Change in investment contracts with DPF liabilities	**728**	468	16.1
Change in reinsurance assets	**154**	(534)	8
Change in reinsurance liabilities	**457**	202	20
Fair value adjustments on investment contract liabilities	**16 039**	32 959	16.2
Fair value adjustments on collective investment scheme liabilities	**2 457**	3 061	
Depreciation, amortisation and impairment expenses	**1 326**	1 159	31
Employee benefit expenses	**5 922**	5 132	32
Sales remuneration	**5 071**	3 899	33
Other expenses	**5 806**	5 035	34
Expenses	**60 362**	81 416	
Results of operations	**6 196**	6 238	
Share of profit of associates	**4**	2	5
Finance costs	**(792)**	(482)	35
Profit before tax	**5 408**	5 758	
Income tax expense	**(2 431)**	(2 458)	25.2
Earnings for year	**2 977**	3 300	
Attributable to:			
Owners of the parent	**2 857**	3 197	36
Non-controlling interests	**120**	103	
	2 977	3 300	
Basic earnings per ordinary share (cents)	**183.5**	205.5	36
Diluted earnings per ordinary share (cents)	**180.5**	202.4	36

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STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2015

	2015 Rm	2014 Rm	Notes
Earnings for year	2 977	3 300	
Other comprehensive income, net of tax	68	165	
Items that may subsequently be reclassified to income	6	32	
Exchange differences on translating foreign operations	1	40	14
Available-for-sale financial assets	5	(8)	14
Items that will not be reclassified to income	62	133	
Land and building revaluation	118	41	14
Change in non-distributable reserves	–	6	14
Adjustments to employee benefit funds			
Metropolitan Staff Pension Fund	–	107	14
Other	(20)	(9)	14
Income tax relating to items that will not be reclassified	(36)	(12)	14
Total comprehensive income for year	3 045	3 465	
Total comprehensive income attributable to:			
Owners of the parent	2 926	3 363	
Non-controlling interests	119	102	
	3 045	3 465	

FOR THE YEAR ENDED 30 JUNE 2015

	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 2013	9	13 794	1 631	8 039	23 473	391	23 864	
Total comprehensive income	–	–	166	3 197	3 363	102	3 465	
Income statement	–	–	–	3 197	3 197	103	3 300	
Other comprehensive income	–	–	166	–	166	(1)	165	
Dividend paid	–	–	–	(2 092)	(2 092)	(18)	(2 110)	
BEE cost	–	–	2	–	2	–	2	
Increase in treasury shares held on behalf of contract holders	–	(12)	–	–	(12)	–	(12)	
Transfer to other reserves from retained earnings	–	–	3	(3)	–	–	–	14
Business combinations	–	–	–	–	–	5	5	
Balance at 1 July 2014	**9**	**13 782**	**1 802**	**9 141**	**24 734**	**480**	**25 214**	
Total comprehensive income	**–**	**–**	**69**	**2 857**	**2 926**	**119**	**3 045**	
Income statement	**–**	**–**	**–**	**2 857**	**2 857**	**120**	**2 977**	
Other comprehensive income	**–**	**–**	**69**	**–**	**69**	**(1)**	**68**	
Dividend paid	**–**	**–**	**–**	**(3 094)**	**(3 094)**	**(23)**	**(3 117)**	
BEE cost	**–**	**–**	**4**	**–**	**4**	**–**	**4**	
Increase in treasury shares held on behalf of contract holders	**–**	**(7)**	**–**	**–**	**(7)**	**–**	**(7)**	
Transfer from other reserves to retained earnings	**–**	**–**	**(9)**	**9**	**–**	**–**	**–**	14
Transactions with owners[1]	**–**	**–**	**–**	**–**	**–**	**(170)**	**(170)**	
Transactions with non-controlling interests	**–**	**–**	**–**	**(15)**	**(15)**	**–**	**(15)**	
Puttable non-controlling interests[1]	**–**	**–**	**–**	**(21)**	**(21)**	**–**	**(21)**	
Business combinations	**–**	**–**	**–**	**–**	**–**	**95**	**95**	
Conversion of preference shares	**–**	**20**	**–**	**–**	**20**	**–**	**20**	
Balance at 30 June 2015	**9**	**13 795**	**1 866**	**8 877**	**24 547**	**501**	**25 048**	

[1] 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 embedded value. In terms of IFRS, the group has recognised a financial liability (R111 million), being the present value of the estimated purchase price, for exercising this option. The group has consolidated 96% of the subsidiaries' results and de-recognised the non-controlling interest (R90 million) due to the financial liability recognised above, which is in line with its selected accounting policy.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2015

	2015 Rm	2014 Rm	Notes
Cash flow from operating activities			
Cash utilised in operations	**(9 605)**	(4 577)	37.1
Interest received	**11 410**	10 078	
Dividends received	**3 193**	3 118	
Income tax paid	**(2 752)**	(2 939)	37.2
Interest paid	**(741)**	(479)	37.3
Net cash inflow from operating activities	**1 505**	5 201	
Cash flow from investing activities			
Acquisition of subsidiaries	**(745)**	627	38
Disposal of non-current assets held for sale	**17**	663	
Transaction costs on acquisition of subsidiaries and associates	**–**	(25)	
Loans advanced to related parties	**(4)**	(102)	
Dividends from associates	**1**	–	
Purchase of owner-occupied properties	**(9)**	(4)	
Disposal of owner-occupied properties	**20**	–	
Purchase of property and equipment	**(227)**	(159)	
Disposal of property and equipment	**14**	11	
Purchase of intangible assets	**(338)**	(218)	
Net cash (outflow)/inflow from investing activities	**(1 271)**	793	
Cash flow from financing activities			
Finance leases repaid	**(1)**	(1)	
Transactions with minority shareholders	**(168)**	–	
Increase in other borrowings	**919**	3 105	
Repayment of other borrowings	**(568)**	(388)	
Dividends paid to equity holders	**(3 094)**	(2 092)	
Dividends paid to non-controlling interest shareholders	**(23)**	(18)	
Net cash (outflow)/inflow from financing activities	**(2 935)**	606	
Net cash flow	**(2 701)**	6 600	
Cash resources and funds on deposit at beginning	**28 875**	22 275	
Cash resources and funds on deposit at end	**26 174**	28 875	
Made up as follows:			
Cash and cash equivalents as per statement of financial position	**26 174**	28 875	12
	26 174	28 875	

BASIS OF PREPARATION OF THE STATEMENTS

The financial statements, as set out below, have been prepared in accordance with International Financial Reporting Standards (IFRS), IFRS Interpretations Committee (IFRIC) interpretations issued and effective at the time of preparing these statements, the SAICA Financial Reporting Guides (as issued by the Accounting Practices Committee), Financial Pronouncements (as issued by the Financial Reporting Standards Committee), the Listings Requirements of the JSE Ltd 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

Other measurement basis

- insurance contracts, investment contracts with discretionary participation features (DPF) and reinsurance contracts valued using the *financial soundness valuation* 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 below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the 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 on page 122.

The preparation of the group's consolidated results was supervised by the group finance director, Mary Vilakazi, CA(SA) and have been audited by PricewaterhouseCoopers Inc. in compliance with the requirements of the Companies Act, 71 of 2008.

Reclassifications

The group's June 2014 results have been restated for the following reclassifications:

- Certain income and expenses of R334 million in the Shareholder Capital segment have been set off to better reflect the information used by management.
- The classification of certain financial assets has been refined in the current period, and where considered necessary, the prior year was restated. This had no change to the statement of financial position.
- Reinsurance contract liabilities of R202 million, previously shown with reinsurance contract assets, have been grossed up and disclosed separately. This restatement was deemed necessary in order to improve comparability between periods.
- Promoter cell administration expenses of R88 million, previously included in cell captive business expenses in the segment report, was reallocated to administration expenses in line with the way in which the chief operating decision-maker, being the MMI executive committee, monitors and evaluates the performance of the Momentum Employee Benefits segment.

Refer to note 52 for further details on the above restatements.

These restatements 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.

Published standards, amendments and interpretations effective for June 2015 financial period

The following published standards are mandatory for the group's accounting period beginning on or after 1 July 2014 and have been implemented in accordance with the transitional provisions of these standards:

- IFRS 10, IFRS 12 and IAS 27 (amendments) – Investment entities
- IAS 19 (amendment) – Employee benefits
- IAS 32 (amendment) – Offsetting financial assets and financial liabilities
- IAS 36 (amendment) – Recoverable amount disclosures for non-financial assets
- IAS 39 (amendment) – Novation of derivatives and continuation of hedge accounting
- IFRIC 21 – Levies

Improvements project amendments

- IFRS 2 – Share-based payment (effective from annual periods beginning on or after 1 July 2014).
- IFRS 3 – Business combinations (effective from annual periods beginning on or after 1 July 2014).
- IFRS 8 – Operating segments (effective from annual periods beginning on or after 1 July 2014).

BASIS OF PREPARATION OF THE STATEMENTS
continued

Published standards, amendments and interpretations effective for June 2015 financial period *continued*

Improvements project amendments *continued*

- IFRS 13 – Fair value measurement (effective from annual periods beginning on or after 1 July 2014).
- IAS 16 – Property, plant and equipment (effective from annual periods beginning on or after 1 July 2014).
- IAS 24 – Related party disclosures (effective from annual periods beginning on or after 1 July 2014).
- IAS 38 – Intangible assets (effective from annual periods beginning on or after 1 July 2014).
- IAS 40 – Investment property (effective from annual periods beginning on or after 1 July 2014).

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

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

- IFRS 10 and IAS 28 (amendments) – Sale or contribution of assets between an investor and its associate or joint venture (effective from annual periods beginning on or after 1 January 2016).
- IFRS 10, IFRS 12 and IAS 28 Investment entities (amendments) – Applying the consolidation exception (effective from annual periods beginning on or after 1 January 2016).
- IFRS 11 (amendments) – Joint arrangements (effective from annual periods beginning on or after 1 January 2016).
- IAS 1 (amendments) – Disclosure initiative (effective from annual periods beginning on or after 1 January 2016).
- IAS 16 and IAS 38 (amendments) – Clarification of acceptable methods of depreciation and amortisation (effective from annual periods beginning on or after 1 January 2016).
- IAS 27 (amendment) – Equity method in separate financial statements (effective from annual periods beginning on or after 1 January 2016).
- IFRS 15 – Revenue from contracts with customers (effective from annual periods beginning on or after 1 January 2017).
- IFRS 9 – Financial instruments (effective from annual periods beginning on or after 1 January 2018).

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 5 – Non-current assets held for sale and discontinued operations (effective from annual periods beginning on or after 1 July 2016).
- IFRS 7 – Financial instruments: disclosures (effective from annual periods beginning on or after 1 July 2016).
- IAS 19 – Employee benefits (effective from annual periods beginning on or after 1 July 2016).
- IAS 34 – Interim financial reporting (effective from annual periods beginning on or after 1 July 2016).

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

Standards, amendments to and interpretations of published standards that are not yet effective and are not currently relevant to the group's operations

- IFRS 14 – Regulatory deferral accounts (effective from annual periods beginning on or after 1 January 2016).
- IAS 16 and IAS 41 (amendments) – Agriculture: bearer plants (effective from annual periods beginning on or after 1 January 2016).

CONSOLIDATION

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. They are deconsolidated from the date that control ceases. All material subsidiaries have financial years ending on 30 June and are consolidated to that date. Subsidiaries with financial year-ends other than 30 June are consolidated using audited or reviewed results (where necessary) for the relevant period ended 30 June. The accounting policies for subsidiaries are consistent, in all material respects, with the policies adopted by the 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 purchase consideration given at the date of acquisition, equity issued and liabilities assumed or incurred (including contingent liabilities). 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.

Subsequent measurement – MMI Holdings Ltd separate financial statements

Subsidiary companies are stated at cost less any impairment losses.

Impairment – MMI Holdings Ltd separate financial statements

The impairment of investments in subsidiary companies is assessed annually by considering the future expected cash flows or the fair value of the subsidiary.

Gains and losses on disposal

Gains and losses on disposal of subsidiaries are included in the income statement as investment income.

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.

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.

Measurement – MMI Holdings Ltd separate financial statements

Associated companies are carried at cost less impairment.

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.

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 fair value reserve in other comprehensive income. Translation differences on monetary items classified as available-for-sale are recognised in the income statement when incurred.

Subsidiary undertakings

Foreign entities are entities of the 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.

FOREIGN CURRENCIES *continued*

Subsidiary undertakings *continued*

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.

INTANGIBLE ASSETS

Goodwill

Recognition and measurement

All business combinations are accounted for by applying the acquisition method of accounting.

The initial cost of a business combination is adjusted if the agreement provides for adjustments to the cost that are contingent on one or more future events.

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

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

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

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

Impairment

At the acquisition date, goodwill acquired in a business combination is allocated to *cash-generating units* that are expected to benefit from the 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 goodwill exceeds its recoverable amount, being the higher of value in use and the fair value less costs to sell. Impairment losses on goodwill are not reversed.

Value of in-force business acquired

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

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.

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 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.

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 *value of new business*).

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.

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.

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 discounted cash flow techniques which present value the net rental income, discounted for the different types of properties at the market rates applicable at the reporting date. 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.

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.

OWNER-OCCUPIED PROPERTIES *continued*

Depreciation *continued*

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

Gains and losses

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

PROPERTY AND EQUIPMENT

Improvements to leasehold properties

Measurement

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

Impairment

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

Equipment

Measurement

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the 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

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

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

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

Gains and losses

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

Impairment

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

INVESTMENT PROPERTIES

Completed properties

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

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 (refer to rental income accounting policy). Subsequent expenditure is charged to the asset's carrying value only when it is probable that the future economic benefits associated with the item will flow to the 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.

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
  – significant embedded derivatives that clearly require bifurcation.

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

- Loans and receivables

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

- Held-to-maturity financial assets

  Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities – other than those that meet the definition of loans and receivables – that management of the 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. 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 note 51. These include discounted cash flow analysis and adjusted price-earnings ratios allowing for the credit risk of the counterparty. Unquoted securities are valued at the end of every reporting period.

Impairment of financial assets

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

  Equity investments

  At each reporting date the 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.

FINANCIAL ASSETS *continued*

Impairment of financial assets *continued*

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

  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.

- Loans and receivables

  A provision for loans and receivables 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.

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.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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

The best evidence of the fair value of a derivative at initial recognition is the transaction price (that is, the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (that is, without modification or repackaging), or 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 bid-ask spread while the value of over-the-counter derivatives is determined by using valuation techniques that incorporate all factors that market participants would consider in setting the price.

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

The 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, 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.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to any ineffective portion is recognised immediately in the income statement within net realised and fair value gains and losses.

Amounts accumulated in equity are recycled to income in the periods in which the hedged item (forecasted transaction or a firm commitment) affects the income statement (for example, when the hedged forecast transaction takes place). However, when the hedged forecast transaction results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. However, when a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

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.

PROPERTIES UNDER DEVELOPMENT

A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology, and functions, or their ultimate purpose or use.

Where the group constructs or develops property on behalf of third parties it acts as agent, and the commission rather than the gross revenue is recorded as revenue.

Where the group acquires, constructs or develops property intended for sale in the ordinary course of business, it is shown as property developed for subsequent sale. The property is initially recorded at cost comprising design costs, raw materials, direct labour and other direct costs. Subsequently, the property is carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less costs to complete redevelopment and selling expenses.

CASH AND CASH EQUIVALENTS

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

SHARE CAPITAL

Share capital is classified as equity where the 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.

SHARE CAPITAL *continued*

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.

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. The consideration received for the shares, net of attributable incremental transaction costs and the related income tax effects on the subsequent sale, is included in equity.

COMPOUND FINANCIAL INSTRUMENTS

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.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the *effective interest rate method*. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition except on conversion or expiry.

DIVIDENDS PAID

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

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.

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 discretionary participation features

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

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 *financial soundness valuation* (FSV) basis as set out in SAP 104 – Calculation of the value of the assets, liabilities and capital adequacy requirement 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 changes in estimates are reflected in the income statement as they occur.

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

- For group smoothed bonus business, the liability is taken as the sum of the *fund accounts*, being the retrospective accumulation of premiums net of charges and benefit payments at the declared bonus rates.
- For individual smoothed bonus business, the liability is taken as the sum of the *fund accounts* less the present value of future charges not required for risk benefits and expenses.
- For with-profit annuity business, the liability is taken as the discounted value of projected future benefit payments and expenses. Future bonuses are provided for at bonus rates supported by the assumed future investment return.
- For the above three classes of business, *bonus stabilisation accounts* (BSAs) are held in addition to the liabilities described above. In the case of smoothed bonus business, the BSA is equal to the difference between the market value of the underlying assets and the *fund accounts*. In the case of with-profit annuity business, the BSA is equal to the difference between the market value of the underlying assets and the discounted value of projected future benefit payments and expenses. BSAs are included in contract holder liabilities.
- For conventional with-profit business, the liability is the present value of benefits less premiums, where the level of benefits is set to that supportable by the asset share.
- For individual market-related business, the liability is taken as the fair value of the underlying assets less the present value of future charges not required for risk benefits and expenses.
- For group risk business, liabilities are held to reflect claims incurred but not reported (IBNR).
- For conventional non-profit business, including non-profit annuities and guaranteed endowment business, the liability is taken as the difference between the discounted value of future expenses and benefit payments and the discounted value of future premium receipts.
- A number of contracts contain embedded derivatives in the form of financial options and investment guarantees. Liabilities in respect of these derivatives are fair-valued in accordance with the guidelines in 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.
- Provision is made for the estimated cost of IBNR claims for all relevant classes of business as at the reporting date. IBNR provisions are calculated using run-off triangle methods or else as percentages of premium, based on historical experience. Outstanding reported claims are disclosed in other payables.

Where contract holders are entitled to a partial surrender in respect of certain policies, any partial surrender is recorded as a surrender claim in the income statement and the contract holder liability is therefore reduced.

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 capital adequacy requirement of long-term insurers. *Discretionary margins* are held in addition to the *compulsory margins*. These *discretionary margins* are used to ensure that profit and risk margins in the premiums are not capitalised prematurely so that profits are recognised in line with product design, and in line with the risks borne by the group.

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

- Additional bonus stabilisation accounts are held for the benefit of shareholders to provide an additional layer of protection under extreme market conditions against the risk of removal of non-vested bonuses caused by fluctuations in the values of assets backing smoothed bonus liabilities. This liability is in addition to the policyholder bonus stabilisation account described elsewhere, and is not distributed as bonuses to policyholders under normal market conditions.
- For certain books of business which are ring-fenced per historic merger or take-over arrangements, appropriate liabilities are held to ensure appropriate capitalisation of future profits in line with the terms of the related agreements.

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

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

Compulsory and discretionary margins *continued*

- 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.
- 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. Explicit liabilities are set aside 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 discounted cash flow approach used for insurance contract liabilities.

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 accounts payable. 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.

Capitation contracts

The group enters into *capitation contracts* with medical schemes. These contracts are short-term health benefit insurance contracts.

Measurement

The liability for *capitation contracts* comprises provisions for the group's estimate of the ultimate cost of settling all claims incurred but not yet reported at the reporting date and related internal and external claims-handling expenses. Claims outstanding are determined as accurately as possible based on a number of factors, which include previous experience in claims patterns, claims settlement patterns, changes in the membership profile according to gender and age, trends in claims frequency, changes in the claims processing cycle, and variations in the nature and average cost incurred per claim.

Estimated co-payments and payments from savings plan accounts are deducted in calculating the outstanding claims provision. The group does not discount its provision for outstanding claims on the basis that claims must be submitted within four months of the medical event.

Capitation premiums

Capitation premiums are received monthly, based on participating client scheme membership. Capitation premium income is earned from the date of attachment of risk over the indemnity period, on an accrual basis.

Capitation benefits incurred

Gross capitation benefits incurred are the total estimated cost of all claims arising from the healthcare events that occurred in the year and for which the group is responsible, whether or not reported by the end of the year. These claims include participating client scheme member medical claims, including hospital, primary care and chronic medication expenses.

Capitation benefits incurred comprise:

- claims submitted and accrued for services rendered during the year, net of recoveries from covered members for co-payments and savings plan accounts; and
- claims for services rendered during the previous year not included in the outstanding claims provisions for that year, net of balances in savings plan accounts and recoveries from covered members for co-payments.

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.

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

Investment contracts *continued*

Measurement *continued*

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

For investment contracts with fixed and guaranteed terms (guaranteed endowments and term certain annuities), valuation techniques are used to establish the fair value at inception and at each reporting date. The valuation 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 claims incurred at year-end but not reported until after that date (IBNR), using the prescribed percentages specified by class of business and development period as set out in Directive 169.

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
- 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, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants, making maximum use of market input and relying as little as possible on entity-specific input.

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

Financial liabilities designated at fair value through income

Financial liabilities designated at fair value through income, such as callable notes which are listed on the JSE interest rate market, *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 though income.
- Reverse repurchase agreements: financial assets consisting of financial instruments purchased with an agreement to sell these instruments at a fixed price at a later date. These financial assets are classified as financial instruments designated at fair value through income.

Where financial instruments are sold subject to a commitment to repurchase them, the financial instrument is not derecognised and remains in the statement of financial position and is valued according to the 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.

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 cost and is accrued over the life of the agreement using the *effective interest rate method*.

Financial liabilities at amortised cost

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

Convertible redeemable preference shares and convertible bonds

At initial recognition, the fair value of the liability component of the convertible redeemable preference shares or convertible bonds 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. The dividends on these preference shares are recognised in the income statement in finance costs.

Subordinated redeemable debentures

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

Accounts payable

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

DEFERRED INCOME TAX

Measurement

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

Deferred income tax is provided for in respect of temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the 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 cash flow hedges, which are included in other comprehensive income, is also included in other comprehensive income and is subsequently recognised in the income statement when there is a realised gain or loss.

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

Offsetting

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

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 15% of the dividend received. The DWT is categorised as a withholding tax, as the tax is withheld and paid to tax authorities by the company paying the dividend or by a regulated intermediary and not by the beneficial owner of the dividend. Where a non-exempt group company is a beneficial owner of the dividend, the DWT is recorded as an expense in the income statement when the dividend income is earned.

INDIRECT TAXATION

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

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.

LEASES: ACCOUNTING BY LESSOR

Operating leases

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

PROVISIONS

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

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.

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.

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.

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.

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

EMPLOYEE BENEFITS *continued*

Termination benefits *continued*

costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

Leave pay liability

The group recognises a liability for the amount of 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.

Bonus plans

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

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.

Cash-settled compensation plans

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 *embedded value* 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.

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 are not classified as held for sale as the ongoing investment management implies regular purchases and sales in the ordinary course of business.

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

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

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

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

INCOME RECOGNITION

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

Fee income

Fees received on investment management service contracts

Fees charged for investment management services provided in conjunction with an investment contract are recognised as 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

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.

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.

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.

EXPENSE RECOGNITION

Expenses

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

Finance costs

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

SEGMENTAL REPORTING

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

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 1
- Valuation assumptions for both owner-occupied and investment properties – notes 2 and 4
- Provision for current and deferred tax – note 9
- Assumptions and estimates of contract holder liabilities (also applicable to reinsurance contracts) – notes 8, 17 and 20
- Valuation assumptions for financial instruments – note 51

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.

MMI is in the process of phasing in a new client-centric operating model announced in March 2014. The disclosure in the financial statements is consistent with that of the 2014 year-end. Appropriate changes in financial reporting will be introduced as the group progresses with the operating model implementation.

The committee considers the business from both a geographic and product perspective. The South African operations are segregated into Momentum Retail, Metropolitan Retail, Momentum Employee Benefits, Momentum Investments, Metropolitan Health and Shareholder Capital (which includes Momentum Short-term Insurance (MSTI), Balance sheet management (BSM), other support services, and growth initiatives). The non-South African life insurance, health and asset management companies are all managed as one operating segment, International.

For management purposes, the group is organised into the following reporting segments:

- Momentum Retail: Caters for the financial needs of clients in the middle to upper-income and wealth market segments in South Africa. Product offering: Best-of-breed and fit-for-purpose wealth creation and preservation, risk (insurance) and savings (income) products.
- Metropolitan Retail: Focuses on meeting the needs of clients in the lower to middle-income market, including extended families. Product offering: Savings, income generation and income protection (risk) products.
- Momentum Employee Benefits: Provides income protection and continuation for employees, liability management for employers and retirement funds, and administration for selected retirement funds in South Africa and the open medical scheme, Momentum Medical Scheme Administrators. Product offering: Administration, insurance and investment solutions for employers and retirement funds in large corporate and small, micro and medium enterprise (SMME) market segments. This segment also includes Guardrisk in the current year (2014: four months).
- International: Provides products for retail and institutional customers in Africa for: health insurance and healthcare administration, risk savings and investment products, retirement fund administration, short-term and long-term insurance.
- Momentum Investments: A full-service investment manager in South Africa, Africa and selected international markets. Product offering: Active and passive investment management (local and international), alternative investment management, multi-management, collective investment management and property investment management.
- Metropolitan Health: A leading player in the health industry for public sector and corporate clients plus open schemes in South Africa. Product offering: medical scheme administration, managed healthcare, healthcare-related IT and open scheme distribution.
- Shareholder Capital: Manages the holding company activities and includes BSM. BSM manages the group's strategic balance sheet risks, focusing on the financial position of shareholders and including capital, corporate action, strategic funding and liquidity risk, credit risk, asset-liability matching (with a primary focus on guaranteed liabilities), group treasury, performance measurement and market risk. It includes MSTI, MMI Rewards, other support services and growth initiatives.

Inter-segment fees are charged at market-related rates. Corporate costs are allocated on a usage or time spent basis. Inter-segment 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 36.

Reconciliation of management information to IFRS

The segmental information is reconciled to the IFRS income statement results. The adjustments are shown in two columns:

- The "Adjustments for FNB Life" column represents a reconciliation of Metropolitan Retail's segmental information, which excludes the FNB Life profit-sharing arrangement, to the figures included under IFRS.
- 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.

FOR THE YEAR ENDED 30 JUNE 2015

2015	Momentum Retail Rm	Metropolitan Retail Rm	Momentum Employee Benefits[3] Rm	International Rm
Revenue				
Net insurance premiums	24 017	6 910	21 131	3 563
Recurring premiums	8 333	5 495	13 860	3 215
Single premiums	15 684	1 415	7 271	348
Fee income	2 374	95	2 054	256
External fee income	2 374	95	2 054	256
Inter-segmental fee income	–	–	–	–
Expenses				
Net payments to contract holders				
External payments	23 636	4 967	15 933	1 953
Other expenses	3 916	1 982	4 120	1 431
Sales remuneration	2 072	893	1 391	544
Administration expenses[2]	1 844	1 089	1 532	887
Amortisation due to business combinations and impairments	–	–	–	–
Cell captive business	–	–	1 197	–
Direct property expenses	–	–	–	–
Asset management and other fee expenses	–	–	–	–
Holding company expenses	–	–	–	–
Inter-segmental expenses	–	–	–	–
Income tax	788	390	1 123	100
Diluted core headline earnings	1 531	738	660	152
Operating profit	2 129	1 026	918	185
Tax on operating profit	(598)	(288)	(258)	(33)
Investment income	–	–	–	–
Tax on investment income	–	–	–	–
Actuarial liabilities	184 048	33 226	91 912	10 095

1 The "Reconciling items" column includes: an adjustment to reverse investment contract premiums (R37 673 million) and claims (R33 899 million); grossing up of fee income and expenses relating to the Shareholder Capital segment that are set off for management reporting purposes (R355 million); non-recurring items of R378 million; direct property and asset management fees for all segments, except non-life segments, that are set off against investment income for management reporting purposes but shown as an expense for accounting purposes; the amortisation of intangibles relating to business combinations; expenses relating to consolidated collective investment schemes (R17 million); other minor adjustments to expenses (R145 million), sales remuneration (R7 million) and fee income (R74 million); and adjustments to actuarial liabilities representing inter-segmental liabilities.

2 Administration expenses for the current year include the following relating to new acquisitions: International – R54 million relating to Cannon; Metropolitan Health – R258 million relating to CareCross.

3 Momentum Employee Benefits includes net insurance premiums (R5 484 million), fee income (R577 million), net payments to contract holders (R3 502 million), sales remuneration (R1 293 million), administration expenses (R272 million), cell captive business expenses (R1 197 million) and actuarial liabilities (R17 460 million) relating to Guardrisk (now including Momentum Ability).

4 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 000 million, and the total of such non-current assets located in other countries is R1 223 million.

Momentum Investments Rm	Metropolitan Health Rm	Shareholder Capital Rm	Segmental total Rm	Reconciling items[1] Rm	Adjustments for FNB Life Rm	IFRS total Rm
8 305	387	506	64 819	(37 673)	250	27 396
–	387	506	31 796	(8 281)	250	23 765
8 305	–	–	33 023	(29 392)	–	3 631
1 367	1 674	74	7 894	(549)	10	7 355
1 367	1 674	74	7 894	429	10	8 333
–	–	–	–	(978)	–	(978)
11 277	301	442	58 509	(33 899)	–	24 610
1 189	1 481	1 043	15 162	2 695	268	18 125
–	7	87	4 994	(7)	84	5 071
1 028	1 462	437	8 279	895	184	9 358
58	12	40	110	891	–	1 001
–	–	–	1 197	–	–	1 197
–	–	–	–	120	–	120
103	–	252	355	1 774	–	2 129
–	–	227	227	–	–	227
–	–	–	–	(978)	–	(978)
88	58	(21)	2 526	(95)	–	2 431
181	209	365	3 836	–	–	3 836
206	272	(21)	4 715	–	–	4 715
(61)	(76)	(48)	(1 362)	–	–	(1 362)
50	19	549	618	–	–	618
(14)	(6)	(115)	(135)	–	–	(135)
34 420	30	4 203	357 934	(115)	–	357 819

FOR THE YEAR ENDED 30 JUNE 2015

Restated 2014	Momentum Retail Rm	Metropolitan Retail Rm	Momentum Employee Benefits[2] Rm	International Rm
Revenue				
Net insurance premiums	22 517	6 820	17 343	2 898
Recurring premiums	7 856	5 313	10 283	2 621
Single premiums	14 661	1 507	7 060	277
Fee income	2 034	112	1 479	184
External fee income	2 034	112	1 479	184
Inter-segmental fee income	–	–	–	–
Expenses				
Net payments to contract holders				
External payments	21 215	5 523	12 907	1 602
Other expenses	3 474	2 100	2 316	1 168
Sales remuneration	1 892	937	519	424
Administration expenses	1 582	1 163	1 426	729
Amortisation due to business combinations and impairments	–	–	–	15
Cell captive business	–	–	371	–
Direct property expenses	–	–	–	–
Asset management and other fee expenses	–	–	–	–
Holding company expenses	–	–	–	–
Inter-segmental expenses	–	–	–	–
Income tax	957	341	754	76
Diluted core headline earnings	1 372	587	516	122
Operating profit	1 908	814	704	155
Tax on operating profit	(536)	(227)	(188)	(33)
Investment income	–	–	–	–
Tax on investment income	–	–	–	–
Actuarial liabilities	175 869	32 296	82 902	9 152

1 The "Reconciling items" column includes an adjustment to reverse investment contract premiums (R33 305 million) and claims (R30 108 million); grossing up of fee income and expenses relating to the Shareholder Capital segment that are set off for management reporting purposes (R334 million); non-recurring items of R192 million; direct property and asset management fees for all segments, except non-life segments, that are set off against investment income for management reporting purposes but shown as an expense for accounting purposes; the amortisation of intangibles relating to business combinations; expenses relating to consolidated collective investment schemes (R6 million); other minor adjustments to expenses (R161 million), sales remuneration (R8 million) and fee income (R90 million); and adjustments to actuarial liabilities representing inter-segmental liabilities.

2 Momentum Employee Benefits includes net insurance premiums (R1 927 million), fee income (R192 million), net payments to contract holders (R1 642 million), sales remuneration (R415 million), administration expenses (R88 million), cell captive business expenses (R371 million) and actuarial liabilities (R15 869 million) relating to Guardrisk (now including Momentum Ability).

3 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 216 million, and the total of such non-current assets located in other countries is R755 million.

Momentum Investments Rm	Metropolitan Health Rm	Shareholder Capital Rm	Segmental total Rm	Reconciling items[1] Rm	Adjustments for FNB Life Rm	IFRS total Rm
6 262	47	355	56 242	(33 305)	201	23 138
–	47	332	26 452	(6 914)	201	19 739
6 262	–	23	29 790	(26 391)	–	3 399
1 442	1 513	168	6 932	(385)	20	6 567
1 442	1 513	168	6 932	424	20	7 376
–	–	–	–	(809)	–	(809)
10 823	46	313	52 429	(30 108)	–	22 321
1 195	1 311	830	12 394	2 608	223	15 225
–	–	71	3 843	(8)	64	3 899
954	1 288	197	7 339	693	159	8 191
9	14	39	77	776	–	853
–	–	–	371	–	–	371
–	–	–	–	159	–	159
232	9	270	511	1 819	–	2 330
–	–	253	253	–	–	253
–	–	–	–	(831)	–	(831)
92	45	342	2 607	(198)	49	2 458
197	171	656	3 621	–	–	3 621
219	205	(38)	3 967	–	–	3 967
(59)	(44)	12	(1 075)	–	–	(1 075)
51	14	864	929	–	–	929
(14)	(4)	(182)	(200)	–	–	(200)
34 942	8	3 528	338 697	(98)	–	338 599

FOR THE YEAR ENDED 30 JUNE 2015

	2015 Rm	2014 Rm
Payments to contract holders are reconciled to net insurance benefits and claims in the income statement.		
Momentum Retail	23 636	21 215
Death and disability claims	3 730	3 412
Maturity claims	7 546	6 444
Annuities	4 763	4 505
Withdrawal benefits	80	46
Surrenders	8 523	7 569
Reinsurance recoveries	(1 006)	(761)
Metropolitan Retail	4 967	5 523
Death and disability claims	1 093	1 049
Maturity claims	1 668	2 373
Annuities	620	558
Withdrawal benefits	84	97
Surrenders	1 560	1 542
Reinsurance recoveries	(58)	(96)
Momentum Employee Benefits[1]	15 933	12 907
Death and disability claims	4 589	3 635
Maturity claims	948	667
Annuities	1 554	765
Withdrawals and surrenders	4 020	3 358
Terminations and disinvestments	3 109	3 802
Short-term insurance	4 745	1 880
Reinsurance recoveries	(3 032)	(1 200)
International (individual and employee benefits)	1 953	1 602
Death and disability claims	813	701
Maturity claims	371	284
Annuities	99	97
Withdrawal benefits	108	90
Surrenders	498	395
Terminations and disinvestments	194	80
Reinsurance recoveries	(130)	(45)
Investments – withdrawal benefits	11 277	10 823
Health claims – capitation agreements	301	46
Shareholder Capital claims	442	313
Segmental payments to contract holders	58 509	52 429
Reconciling items[2]	(33 899)	(30 108)
Net insurance benefits and claims (refer to note 30)	24 610	22 321

1 Included in Momentum Employee Benefits above is R6 119 million claims (2014: R2 556 million) and R2 617 million reinsurance recoveries (2014: R914 million) relating to Guardrisk (now including Momentum Ability).
2 Relates mainly to payments to investment contract holders.

		2015 Rm	2014 Rm
1	**INTANGIBLE ASSETS**		
	Goodwill	**1 333**	1 088
	Value of in-force business acquired	**5 168**	5 498
	Customer relationships	**2 467**	2 322
	Brands	**948**	985
	Broker network	**337**	386
	Deferred acquisition costs on long-term investment business	**2 092**	2 059
	Deferred acquisition costs on short-term business	**61**	–
	Computer software	**747**	481
		13 153	12 819
1.1	**Goodwill**		
	Cost	**1 394**	1 149
	Accumulated impairment	**(61)**	(61)
	Carrying amount	**1 333**	1 088
	Carrying amount at beginning	**1 088**	502
	Business combinations (refer to note 38)	**234**	586
	Exchange differences	**11**	–
	Carrying amount at end	**1 333**	1 088
	Cash-generating units		
	Ex-Metropolitan group – Metropolitan Retail (Metropolitan/Momentum merger)	**170**	170
	Momentum Medical Scheme Administrators (MMSA) – Metropolitan Health	**127**	127
	Momentum Manager of Managers – Momentum Investments	**14**	14
	Eris Property Group – Momentum Investments	**191**	191
	Guardrisk – Momentum Employee Benefits	**567**	567
	Providence – Metropolitan Health	**19**	19
	Cannon – International (refer to note 38)	**103**	–
	Other[1] (refer to note 38)	**142**	–
		1 333	1 088

[1] Included in other is exchange rate differences of R11 million.

Critical accounting estimates and judgements

Goodwill is allocated to cash-generating units (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.

	2015		2014	
	Risk discount rate	Growth rate	Risk discount rate	Growth rate
Assumptions				
Ex-Metropolitan group	**11%**	**7%**	11%	7%
Momentum Medical Scheme Administrators	**22%**	**6%**	22%	6%
Momentum Manager of Managers	**11%**	**7%**	11%	6%
Eris Property Group	**11%**	**3%**	11%	3%
Guardrisk	**11%**	**7%**	11%	2%
Cannon	**16%**	**8%**	–	–

1 INTANGIBLE ASSETS *continued*

1.1 Goodwill *continued*

Changes in the assumptions relating to the CGUs are not considered to be materially sensitive in the current year. In the prior year, increasing the discount rate used in the value-in-use calculations relating to MMSA by 1% would have resulted in an impairment of R21 million. The growth rate for Eris Property Group is after assumed lease terminations and vacancies.

			2015 Rm	2014 Rm
1.2	**Value of in-force business acquired**			
	Acquisition of insurance and investment contracts with DPF			
	Cost		**6 782**	6 782
	Accumulated amortisation		**(1 614)**	(1 284)
	Carrying amount		**5 168**	5 498
	Carrying amount at beginning		**5 498**	5 681
	Business combinations (refer to note 38)		**–**	138
	Amortisation charges		**(330)**	(321)
	Carrying amount at end		**5 168**	5 498
	The carrying amount is made up as follows:	**To be fully amortised by year:**		
	Sage – Momentum Retail	2046	**706**	742
	Momentum Namibia – International	2051	**253**	274
	Metropolitan/Momentum merger			
	Metropolitan Retail	2041	**3 110**	3 255
	Metropolitan Employee Benefits	2041	**637**	667
	International	2041	**349**	428
	Guardrisk – Momentum Employee Benefits	2034	**104**	122
	Other		**9**	10
			5 168	5 498

As a result of certain insurance contract acquisitions, the group carries an intangible asset representing the present value of in-force covered business (VIF) acquired. The business combinations in the prior year relates mainly to the acquisition of Guardrisk (R128 million).

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.

			2015 Rm	2014 Rm
1	**INTANGIBLE ASSETS** *continued*			
1.3	**Customer relationships**			
	Cost		**4 335**	3 723
	Accumulated amortisation		**(1 863)**	(1 398)
	Accumulated impairment		**(5)**	(3)
	Carrying amount		**2 467**	2 322
	Carrying amount at beginning		**2 322**	2 268
	Business combinations (refer to note 38)		**612**	447
	Amortisation charges		**(465)**	(393)
	Impairment charges		**(2)**	–
	Carrying amount at end		**2 467**	2 322
	The carrying amount is made up as follows:	**To be fully amortised by year:**		
	Metropolitan/Momentum merger			
	Metropolitan Health	2021	**803**	951
	Asset management – Momentum Investments	2021	**37**	125
	Investment contracts – Momentum Employee Benefits	2021	**586**	621
	Metropolitan Health Namibia Administrators – International	2019	**62**	71
	Momentum Short-term Insurance – Shareholder Capital	2027	**56**	79
	Guardrisk – Momentum Employee Benefits	2024	**266**	297
	Providence – Metropolitan Health	2023	**89**	100
	CareCross – Metropolitan Health	2019	**293**	–
	Cannon – International	2024	**168**	–
	Other		**107**	78
			2 467	2 322

Customer relationships acquired represent the fair value of customer relationships in place immediately before a business combination took place. The business combinations in the current year relate mainly to the acquisition of CareCross (R367 million) and Cannon (R173 million). The business combinations in the prior year relate mainly to the acquisition of Guardrisk (R307 million) and Providence (R112 million). Other includes customer relationships relating to smaller acquisitions.

			2015 Rm	2014 Rm
1	**INTANGIBLE ASSETS** *continued*			
1.4	**Brands**			
	Cost		**1 208**	1 183
	Accumulated amortisation		**(260)**	(198)
	Carrying amount		**948**	985
	Carrying amount at beginning		**985**	963
	Business combinations (refer to note 38)		**25**	79
	Amortisation charges		**(62)**	(57)
	Carrying amount at end		**948**	985
	The carrying amount is made up as follows:	**To be fully amortised by year:**		
	Metropolitan brand (Metropolitan/Momentum merger)	2031	**831**	884
	Momentum Namibia brand – International	2027	**22**	23
	Guardrisk brand – Momentum Employee Benefits	2034	**74**	78
	CareCross brand – Metropolitan Health	2024	**21**	–
			948	985
	The acquisition of CareCross in the current year resulted in the recognition of the CareCross brand of R25 million. The acquisition of Guardrisk in the prior year resulted in the recognition of the Guardrisk brand of R79 million.			
1.5	**Broker network**			
	Cost		**490**	490
	Accumulated amortisation		**(153)**	(104)
	Carrying amount		**337**	386
	Carrying amount at beginning		**386**	65
	Business combinations (refer to note 38)		**–**	355
	Amortisation charges		**(49)**	(34)
	Carrying amount at end		**337**	386
	The carrying amount is made up as follows:	**To be fully amortised by year:**		
	Metropolitan/Momentum merger	2016	**11**	38
	Guardrisk (non-life) – Momentum Employee Benefits	2029	**249**	267
	Guardrisk (life) – Momentum Employee Benefits	2034	**77**	81
			337	386
	The acquisition of Guardrisk in the prior year resulted in the recognition of broker networks of R355 million.			
1.6	**Deferred acquisition costs on long-term investment business**			
	Cost		**4 443**	4 058
	Accumulated amortisation		**(2 351)**	(1 999)
	Carrying amount		**2 092**	2 059
	Carrying amount at beginning		**2 059**	1 994
	Additions		**379**	330
	Amortisation charges		**(347)**	(267)
	Exchange differences		**1**	2
	Carrying amount at end		**2 092**	2 059

		2015 Rm	2014 Rm
1	**INTANGIBLE ASSETS** *continued*		
1.7	**Deferred acquisition costs on short-term business**		
	Cost	**105**	–
	Accumulated amortisation	**(44)**	–
	Carrying amount	**61**	–
	Carrying amount at beginning	**–**	–
	Additions	**105**	–
	Amortisation charges	**(44)**	–
	Carrying amount at end	**61**	–
1.8	**Computer software**		
	Cost	**1 005**	584
	Accumulated amortisation	**(214)**	(76)
	Accumulated impairment	**(44)**	(27)
	Carrying amount	**747**	481
	Carrying amount at beginning	**481**	296
	Additions	**338**	218
	Business combinations (refer to note 38)	**84**	76
	Amortisation charges	**(138)**	(84)
	Impairment charges	**(17)**	(24)
	Exchange differences	**(1)**	(1)
	Carrying amount at end	**747**	481

As a result of the strategic decision by management to outsource investment administration in future, investment administration systems have been fully impaired by R17 million in the current year. The health business system used by the International segment was impaired in the prior year by R15 million as a result of the number of lives under administration not growing as anticipated.

Internally developed software

Included in computer software is a carrying value of R370 million (2014: R148 million) representing internally developed software.

Material computer software

The Shareholder Capital segment has computer software of R76 million (2014: R64 million) which will be fully amortised by 2023. For impairment testing purposes, a cost of capital of 13% (2014: 12%) was used to present value the future economic benefits of the software.

Guardrisk (Momentum Employee Benefits) has computer software of R74 million (2014: R69 million) which will be fully amortised by 2024. For valuation purposes a risk discount rate of 11% (2014: 11%) and a growth rate of 2% (2014: 2%) was used.

		2015 Rm	2014 Rm
2	**OWNER-OCCUPIED PROPERTIES**		
	Owner-occupied properties – at fair value	**3 030**	1 714
	Historical carrying value – cost model	**2 125**	911
	Fair value at beginning	**1 714**	1 488
	Additions	**9**	4
	Disposals	**(20)**	–
	Business combinations (refer to note 38)	**19**	–
	Revaluations	**140**	31
	Depreciation charges	**(61)**	(44)
	Transfer from investment properties	**1 229**	235
	Fair value at end	**3 030**	1 714

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

Critical accounting estimates and judgements

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

			Change in fair value	
Assumptions	Base assumption	Change in assumption	Decrease in assumption Rm	Increase in assumption Rm
Capitalisation rate	**8.0% – 12.0%**	**10%**	**121**	**(99)**
Discount rate	**13.0% – 16.0%**	**10%**	**79**	**(103)**

Capitalisation and discount rates (2014: 9.0% – 12.0% and 14.0% – 16.0% 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.

		2015 Rm	2014 Rm
3	**PROPERTY AND EQUIPMENT**		
	Equipment and leasehold improvements		
	Cost	**497**	370
	Accumulated depreciation	**(142)**	(53)
	Accumulated impairment	**(2)**	(2)
	Carrying amount	**353**	315
	Equipment comprises furniture and fittings, computer equipment and motor vehicles.		
	Carrying amount at beginning	**315**	348
	Additions	**227**	159
	Disposals	**(14)**	(11)
	Business combinations (refer to note 38)	**14**	5
	Depreciation charges	**(189)**	(185)
	Impairment charges	**–**	(1)
	Carrying amount at end	**353**	315

	2015 Rm	2014 Rm
4 INVESTMENT PROPERTIES		
At 30 June investment properties comprised the following property types:		
Industrial	**302**	284
Shopping malls	**3 667**	3 351
Office buildings	**2 945**	3 818
Hotels	**235**	261
Vacant land	**98**	88
Other	**149**	1
Property at valuation	**7 396**	7 803
Accelerated rental income (refer to note 11)	**(184)**	(128)
	7 212	7 675
Investment properties under development		
Fair value at beginning	**–**	521
Capitalised development expenditure	**–**	410
Transfer to completed properties	**–**	(931)
Fair value at end	**–**	–
Completed properties		
Fair value at beginning	**7 675**	5 912
Capitalised subsequent expenditure	**93**	86
Business combinations (refer to note 38)	**116**	–
Additions	**277**	504
Disposals	**(103)**	(64)
Revaluations	**439**	572
Change in accelerated rental income	**(56)**	(31)
Transfer to owner-occupied properties	**(1 229)**	(235)
Transfer from investment properties under development	**–**	931
Fair value at end	**7 212**	7 675
Total investment properties	**7 212**	7 675

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

Critical accounting estimates and judgements

All properties were internally or externally valued using a discounted cash flow method based on contractual or market-related rent receivable. External valuations were obtained for certain properties as at 30 June 2015, amounting to 36% (2014: 37%) 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	**7.0% – 11.0%**	**10%**	**665**	**(198)**
Discount rate	**13.0% – 16.0%**	**10%**	**316**	**(411)**

Capitalisation and discount rates (2014: 7.0% – 12.0% and 13.0% – 16.0% 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.

		2015 Rm	2014 Rm
5	**INVESTMENTS IN ASSOCIATES**		
	Carrying amount at beginning	179	121
	Additions	2	56
	Share of profit	4	2
	Dividends paid	(1)	–
	Transfer to subsidiary	(39)	–
	Carrying amount at end – non-current	145	179

Group interest in equity-accounted associates	%*	Carrying value Rm	Assets Rm	Liabilities Rm	Earnings Rm
2015					
Global Doctors Network (Pty) Ltd (GDN)	–	–	–	–	(13)
BEP Developments (Pty) Ltd (BEP)	50%	5	7	(2)	–
BVI 290 (Pty) Ltd (BVI 290)	50%	2	8	(6)	–
Khumo Property Management (Pty) Ltd (KPM)	50%	3	5	(2)	–
Q Mall (Pty) Ltd (QM)	50%	–	8	(8)	–
Siki Fox Properties (Pty) Ltd (SFP)	50%	6	7	(1)	–
C Shell 448 (Pty) Ltd (C Shell)	49%	5	8	(10)	2
Eris Property Fund Carry Vehicle (Pty) Ltd (EPF CV)	27%	19	19	–	5
Mettle Property Solutions Securitisation (Pty) Ltd (MPSS)	22%	–	182	(219)	–
Kagiso Empowerment Infrastructure Fund (KEIF)	15%	91	91	–	10
Racecourse Mall (Pty) Ltd (RM)	13%	14	33	(19)	–
		145	368	(267)	4
2014					
Global Doctors Network (Pty) Ltd (GDN)	65%	52	60	(38)	(21)
BEP Developments (Pty) Ltd (BEP)	50%	4	4	–	4
BVI 290 (Pty) Ltd (BVI 290)	50%	2	8	(6)	–
Khumo Property Management (Pty) Ltd (KPM)	50%	4	5	(1)	2
Q Mall (Pty) Ltd (QM)	50%	–	5	(5)	–
Siki Fox Properties (Pty) Ltd (SFP)	50%	8	38	(30)	1
C Shell 448 (Pty) Ltd (C Shell)	49%	2	6	(10)	1
Eris Property Fund Carry Vehicle (Pty) Ltd (EPF CV)	27%	14	17	–	15
Mettle Property Solutions Securitisation (Pty) Ltd (MPSS)	25%	–	197	(238)	–
Kagiso Empowerment Infrastructure Fund (KEIF)	15%	81	81	–	13
Racecourse Mall (Pty) Ltd (RM)	13%	12	34	(22)	(13)
		179	455	(350)	2

* Effective group percentage held

- GDN (Metropolitan Health segment) provides services to the healthcare industry. During the prior year, an additional 15% in GDN was purchased for R32 million. The additional investment did not change the group's power to control the entity. GDN was transferred to a subsidiary on 1 January 2015 when the group acquired an additional stake in the company. The step-up to fair value was not considered material and the purchase price allocation has been included in the Other column in note 38.
- BEP, BVI 290, KPM, QM, SFP and RM are property services companies held by Eris Property Group (Pty) Ltd in the Momentum Investments segment.
- C Shell (International segment) is held 51% by Kagiso Tiso Holdings. C Shell owns 33% of Silverbridge Holdings Ltd which owns a company specialising in IT insurance software. The carrying value includes a loan of R7 million.
- EPF CV (Momentum Investments 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 7. The preference shares have a term of five years and the dividend rate is the risk-free rate plus 0.5%.
- MPSS provides funding to affordable housing developments and relates to the Shareholder Capital segment. The carrying value is limited to zero.
- KEIF fund 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 RM and determined that it has significant influence even though the shareholding is below 20%.

		2015 Rm	Restated 2014 Rm
6	**FINANCIAL INSTRUMENTS**		
6.1	**Securities designated at fair value through income**		
	Equity securities	104 748	100 790
	Debt securities	104 176	88 788
	Funds on deposit and other money market instruments	24 473	24 941
	Unit-linked investments	132 330	120 477
		365 727	334 996
	Open-ended	238 257	218 859
	Current	46 044	42 017
	Non-current	81 426	74 120
	1 to 5 years	33 500	37 572
	5 to 10 years	15 355	13 030
	> 10 years	32 571	23 518
		365 727	334 996

General

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

For risk disclosure of the above financial instruments, refer to the risk management section of the financial statements.

Refer to note 43.1 for details of unlisted financial assets.

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

		2015 Rm	2014 Rm
	Scrip lending (included above)		
	Carrying value of securities on loan		
	Local listed equity securities	2 157	2 069
	Refer to note 50 for detail on collateral held.		
6.2	**Investments in associates designated at fair value through income**		
	Collective investment schemes (refer to Annexure B)	12 362	11 900

		2015		2014	
		Assets Rm	Liabilities Rm	Assets Rm	Liabilities Rm
6	**FINANCIAL INSTRUMENTS** *continued*				
6.3	**Derivative financial instruments**				
	Held for trading	**2 027**	**2 111**	2 347	1 853
	Held for hedging purposes	**6**	**–**	15	–
	Fair value hedges	**6**	**–**	15	–
		2 033	**2 111**	2 362	1 853
	Current	**564**	**304**	790	272
	Non-current	**1 469**	**1 807**	1 572	1 581
		2 033	**2 111**	2 362	1 853

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.

	2015 Effective exposure Rm	2015 Assets Rm	2015 Liabilities Rm	2014 Effective exposure Rm	2014 Assets Rm	2014 Liabilities Rm
6 FINANCIAL INSTRUMENTS *continued*						
6.3 Derivative financial instruments *continued*						
Derivatives held for trading						
Equity derivatives		120	159		238	308
Options, OTC	349	68	61	(103)	150	137
Options, exchange traded	(664)	9	–	(1 157)	2	–
Futures, exchange traded	873	35	98	711	67	171
Swaps, OTC	8	8	–	19	19	–
Interest rate derivatives		1 827	1 158		2 098	1 259
Options, OTC	(200)	12	–	–	–	–
Swaps, OTC	655	1 809	1 154	835	2 092	1 257
Forward rate agreement, OTC	(276)	6	4	(1 315)	6	2
Bonds		69	25		9	–
Options, exchange traded	10	–	–	49	–	–
Futures, OTC	(1 454)	5	25	327	8	–
Futures, exchange traded	973	64	–	2 100	1	–
Credit derivatives		4	7		2	–
Swaps, OTC	(3)	4	7	2	2	–
Currency derivatives		7	762		–	286
Futures, OTC	7	7	–	–	–	–
Futures, exchange traded	(644)	–	64	(283)	–	–
Swaps, OTC	(698)	–	698	(286)	–	286
Derivatives held for trading		2 027	2 111		2 347	1 853
Derivatives held for hedging purposes						
Interest rate swaps	6	6	–	15	15	–
Total derivative financial instruments		2 033	2 111		2 362	1 853

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.

Fair value hedges

Fair value hedges are used by the group to protect certain shareholder assets against changes in the fair value of financial assets and financial liabilities due to movements in interest rates. The group has two fair value hedges in place with the fixed callable notes (refer to note 18) being the hedged items. The group earns variable interest rates in the shareholder portfolio, while paying fixed interest on the callable notes. The risk has been hedged with a swap agreement whereby the group earns fixed interest but pays variable interest. This matches the variable nature of the investment income earned on the shareholder portfolio.

		2015 Rm	2014 Rm
6	**FINANCIAL INSTRUMENTS** *continued*		
6.3	**Derivative financial instruments** *continued*		
	Hedge accounting has been applied to the 2006 callable notes as follows:		
	Gains/(losses) for the year ended 30 June arising from the change in fair value of the swap agreement and callable notes:		
	Interest rate swaps	**5**	(18)
	2006 Subordinated callable notes	**3**	17
	Net realised and fair value gains/(losses)	**8**	(1)
	Gains/(losses) for the year ended 30 June arising from the change in fair value of fair value hedges:		
	On hedging instrument	**(8)**	(16)
	On hedged items attributable to the hedged risk: 2006 callable notes	**13**	21
	Ineffective portion recognised in Net realised and fair value gains	**5**	5
6.4	**Available-for-sale**		
	Equity securities		
	Local listed	**12**	3
	Foreign listed	**147**	87
	Unlisted	**36**	4
	Debt securities – listed	**–**	31
	Unit-linked investments	**13**	4
		208	129
	Open-ended	**8**	7
	Current	**200**	118
	Non-current	**–**	4
	1 to 5 years	**–**	4
		208	129

General

The unit-linked investments represent the seed capital provided by the group to enable the collective investment scheme management company to establish new collective investment schemes.

The open-ended category includes financial instruments with no fixed maturity date as management is unable to provide a reliable estimate of maturity, given the volatility of equity markets and policyholder behaviour. This category includes listed and unlisted equities, unit-linked investments and other non-term instruments.

		2015 Rm	2014 Rm
6	**FINANCIAL INSTRUMENTS** *continued*		
6.5	**Held-to-maturity**		
	Funds on deposit and other money market instruments – non-current	42	85
	Debt securities – non-current	31	15
		73	100
7	**LOANS AND RECEIVABLES**		
	Accounts receivable	2 993	2 444
	Unsettled trades	2 503	772
	Loans	2 359	2 370
	Staff loans	67	27
	Loans due from associates	80	134
	Preference shares	64	57
	Empowerment partners	328	355
	Other related party loans	81	48
	Less: provision for impairment on related party loans	(65)	(59)
	Due from agents, brokers and intermediaries	355	345
	Less: provision for impairment	(174)	(112)
	Policy loans	1 444	1 421
	Other	179	154
		7 855	5 586
	Current	6 814	4 970
	Non-current	1 041	616
		7 855	5 586
	Reconciliation of aggregated provision accounts		
	Balance at beginning	171	144
	Additional provision	81	45
	Utilised/reversed during year	(13)	(18)
	Balance at end	239	171

Terms and conditions of material loans

- Loans due from associates include:
  - R56 million (2014: R55 million) loans to Mettle Property Solutions Securitisation (Pty) Ltd. Interest is charged at JIBAR plus 3.5% or 6% (nacq). The repayment and security of the loan is linked to the underlying loan investment. The loans were impaired by R11 million in the current year (2014: R18 million).
  - a loan to Racecourse Mall (Pty) Ltd of R32 million in the prior year that has since been repaid. Interest was charged at 4.75%. The loan was secured by the underlying property in the company.
- The loans to empowerment partners of R328 million includes a loan of R303 million at 30 June 2015 (2014: R323 million) that 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 June 2017.
- 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 13% (2014: 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.

		2015 Rm	Restated 2014 Rm
8	**REINSURANCE CONTRACT ASSETS**		
	Reinsurance asset relating to long-term insurance	**1 225**	708
	Reinsurance asset relating to cell captive business	**1 267**	1 563
	Prepaid reinsurance	**554**	507
		3 046	2 778
	Balance at beginning	**2 778**	1 345
	Movement charged to income statement	**(154)**	534
	Attributable to non-cell captive business	**(28)**	(26)
	Attributable to cell captive business	**(126)**	560
	Business combinations (refer to note 38)	**6**	762
	Cell captive premiums	**(12)**	4
	First-party cell captives	**494**	96
	Third-party cell captives	**(73)**	(13)
	Exchange differences	**1**	2
	Other	**6**	48
	Balance at end	**3 046**	2 778
	Current	**2 357**	2 218
	Non-current	**689**	560
		3 046	2 778

Refer to note 17 for relevant assumptions and estimates applied in valuation of the reinsurance assets. Amounts due from reinsurers in respect of claims incurred by the group on contracts that are reinsured are included in insurance and other receivables. Refer to note 11.

		2015 Rm	2014 Rm
9	**DEFERRED INCOME TAX**		
	Deferred tax asset	**287**	263
	Deferred tax liability	**(4 351)**	(4 281)
		(4 064)	(4 018)
	Deferred tax is made up as follows:		
	Accruals and provisions	**227**	139
	Accelerated wear and tear	**(6)**	(7)
	Revaluations	**(1 523)**	(1 587)
	Deferred tax on intangible assets as a result of business combinations	**(2 521)**	(2 533)
	Deferred revenue liability	**159**	146
	Difference between published and statutory policyholder liabilities	**612**	692
	Tax losses	**150**	191
	Negative rand reserves	**(408)**	(395)
	Deferred acquisition costs	**(597)**	(561)
	Prepayments	**(8)**	(4)
	Other	**(149)**	(99)
		(4 064)	(4 018)
	Current	**(346)**	(136)
	Non-current	**(3 718)**	(3 882)
		(4 064)	(4 018)

		2015 Rm	2014 Rm
9	**DEFERRED INCOME TAX** *continued*		
	Movement in deferred tax		
	Balance at beginning	**(4 018)**	(3 793)
	Charge to the income statement	**207**	(25)
	Accruals and provisions	**84**	(37)
	Accelerated wear and tear	**2**	7
	Revaluations	**86**	(171)
	Deferred tax on intangible assets as a result of business combinations	**228**	296
	Deferred revenue liability	**12**	9
	Difference between published and statutory policyholder liabilities	**(81)**	40
	Tax losses	**(37)**	(34)
	Negative rand reserves	**(13)**	3
	Deferred acquisition costs	**(36)**	6
	Prepayments	**(4)**	(3)
	Other	**(34)**	(141)
	Charge to other comprehensive income (refer to note 14)	**(36)**	(12)
	Business combinations (refer to note 38)	**(213)**	(132)
	Exchange differences	**–**	4
	Other	**(4)**	(60)
	Balance at end	**(4 064)**	(4 018)
	Deferred tax asset on available tax losses and credits not provided for	**249**	233

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 R150 million (2014: R191 million) raised due to tax losses, is a deferred tax asset of R132 million (2014: R50 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 R673 million (2014: R276 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.

		2015 Rm	2014 Rm
10	**PROPERTIES UNDER DEVELOPMENT**		
	Costs incurred on projects for third parties	807	1 023
	Funding received from third parties	(807)	(1 023)
		–	–
	Property developed for subsequent sale	330	252
	Total	330	252
11	**INSURANCE AND OTHER RECEIVABLES**		
	Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	3 859	3 669
	Insurance contract holders	2 394	2 434
	Investment contract holders with DPF	9	16
	Cell captives	768	688
	Less: provision for impairment	(56)	(54)
	Due from reinsurers	744	585
	Accelerated rental income (refer to note 4)	184	128
	Other	37	16
		4 080	3 813
	Current	3 969	3 668
	Non-current	111	145
		4 080	3 813
	Impairment of receivables arising from insurance contracts and investment contracts with DPF		
	Impairment is mainly due to expected payment defaults.		
12	**CASH AND CASH EQUIVALENTS**		
	Bank and other cash balances	10 537	16 272
	Funds on deposit and other money market instruments – maturity < 90 days	15 637	12 603
		26 174	28 875

13 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 and
- 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 and
- 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.

		2015 Rm	2014 Rm
13	**SHARE CAPITAL AND SHARE PREMIUM** *continued*		
	Issued share capital *continued*		
	Balance at beginning	**13 791**	13 803
	Treasury shares held on behalf of contract holders	**(7)**	(12)
	Conversion of preference shares net of share issue costs	**20**	–
		13 804	13 791
	Share capital	**9**	9
	Share premium	**13 795**	13 782
		13 804	13 791

MMI Holdings Ltd ordinary shares	2015 Million	2014 Million
Total issued MMI Holdings Ltd shares at 30 June	**1 570**	1 570
Conversion of preference shares	**2**	–
Total ordinary shares in issue	**1 572**	1 570
Treasury shares held on behalf of contract holders	**(14)**	(14)
Basic number of shares in issue	**1 558**	1 556
Convertible redeemable preference shares	**32**	34
Diluted number of shares in issue	**1 590**	1 590
Treasury shares held on behalf of contract holders	**14**	14
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 2015 (2014: 190 million).

Preference shares

MMI Holdings Ltd had 34 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 14 and the debt component is disclosed under note 19. On 13 November 2014 and 31 March 2015, 1 095 861 and 1 051 194 A3 preference shares, respectively, were converted into ordinary shares.

MMIGL has 50 000 non-redeemable, non-cumulative, non-participating preference shares in issue. These preference shares were acquired by MMI Holdings Ltd from FirstRand Ltd in March 2013 and have therefore been eliminated at a group level.

Dividends

For detail of dividends declared and paid during the year, refer to page 93 of the directors' report.

		2015 Rm	2014 Rm
14	**OTHER COMPONENTS OF EQUITY**		
(a)	Land and building revaluation reserve	**631**	561
(b)	Foreign currency translation reserve	**181**	179
(c)	Revaluation of available-for-sale investments	**8**	3
(d)	Non-distributable reserve	**19**	16
(e)	Employee benefit revaluation reserve	**78**	98
(f)	Fair value adjustment for preference shares issued by MMI Holdings Ltd	**940**	940
(g)	Equity-settled share-based payment arrangements	**9**	5
		1 866	1 802
	Movements in other reserves		
(a)	**Land and building revaluation reserve**		
	Balance at beginning	**561**	534
	Earnings directly attributable to other components of equity	**82**	29
	Revaluation	**118**	41
	Deferred tax on revaluation	**(36)**	(12)
	Transfer to retained earnings	**(12)**	(2)
	Balance at end	**631**	561
(b)	**Foreign currency translation reserve**		
	Balance at beginning	**179**	139
	Currency translation differences	**2**	40
	Balance at end	**181**	179
(c)	**Revaluation of available-for-sale investments**		
	Balance at beginning	**3**	11
	Fair value gain/(loss) – gross	**5**	(8)
	Balance at end	**8**	3
(d)	**Non-distributable reserve**		
	Balance at beginning	**16**	4
	Transfer from retained earnings	**3**	5
	Other	**–**	7
	Balance at end	**19**	16
(e)	**Employee benefit revaluation reserve**		
	Balance at beginning	**98**	–
	Remeasurement of post-employment benefit obligations	**(20)**	98
	Balance at end	**78**	98
(f)	**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 Kagiso Tiso Holdings to fair value, as part of the fair value exercise performed on Metropolitan as a result of the merger with Momentum in December 2010.		
(g)	**Equity-settled share-based payment arrangements**		
	BEE share-based payment		
	Balance at beginning	**5**	3
	BEE cost	**4**	2
	Balance at end	**9**	5

A special purpose entity (SPE) (incorporated by MMI Holdings Namibia (MMIHN) and Pinnacle Business Investments (Pinnacle), a broad-based black economic empowerment (B-BBEE) partner) owned by Pinnacle holds 3.1 million shares (19.35%) in MMIHN. MMIHN acquired preference shares in the SPE for R80 million (initial fair value of R100 million). The MMIHN shares are security for the preference share investment and for accounting purposes this is seen as an option to the SPE to buy MMIHN shares at a future date. The transaction will be settled in MMIHN shares and is therefore equity-settled in terms of IFRS 2 – Share-based payments. The option was valued at R3 million (after tax) which represents the cost of the BEE transaction. There are no services to be rendered by the B-BBEE partner over the duration of the contract. In terms of IFRS 10 – Consolidated financial instruments – the SPE is consolidated even though the group does not own the majority of the shares or voting rights. The reserve is increased by MMIHN dividends declared on the applicable shares.

	2015 Rm	2014 Rm
15 INSURANCE CONTRACTS		
15.1 Long-term insurance contracts		
15.1.1 Long-term insurance contract liabilities	**104 038**	105 509
15.1.2 Liabilities to third-party cell captive owners	**708**	530
	104 746	106 039
Capitation contracts	**30**	8
Total	**104 776**	106 047
Open-ended	**16 291**	7 273
Current	**11 316**	14 358
Non-current	**77 169**	84 416
	104 776	106 047
Movement in long-term insurance contracts		
15.1.1 Long-term insurance contract liabilities		
Balance at beginning	**105 509**	96 631
Transfer to policyholder liabilities under insurance contracts	**(1 404)**	8 219
Increase in retrospective liabilities	**1 805**	11 009
Unwind of discount rate	**2 796**	2 355
Expected release of margins	**(3 205)**	(2 834)
Expected cash flows	**(4 002)**	(5 117)
Change in economic assumptions	**284**	356
Change in non-economic assumptions	**(374)**	490
New business	**1 132**	2 511
Experience variances	**160**	(551)
Revaluation liability	**14**	(7)
Net exchange differences	**(14)**	(19)
Business combinations (refer to note 38)	**20**	716
Other	**(87)**	(31)
Balance at end	**104 038**	105 509
15.1.2 Liabilities to third-party cell captive owners		
Balance at beginning	**530**	331
Charge to the income statement	**(665)**	(433)
Business combinations (refer to note 38)	**–**	192
Premiums	**3 435**	2 164
Reinsurance premiums	**131**	34
Claims paid	**(810)**	(447)
Reinsurance recoveries	**158**	44
Changes in share capital, dividends and other items relating to cell captives	**(2 071)**	(1 355)
Balance at end	**708**	530

	2015 Rm	2014 Rm
15 INSURANCE CONTRACTS *continued*		
15.2 Short-term insurance contracts		
15.2.1 Unearned premium provision	**3 168**	2 797
15.2.2 Outstanding claims	**1 548**	1 396
15.2.3 Liabilities to third-party cell captive owners	**1 837**	1 303
Total	**6 553**	5 496
Open-ended	**1 600**	1 304
Current	**4 883**	3 901
Non-current	**70**	291
	6 553	5 496
Movement in short-term insurance contracts		
15.2.1 Unearned premium provision		
Balance at beginning	**2 797**	–
Business combinations (refer to note 38)	**39**	2 954
Movement in unearned premium provision		
Premium income received	**2 575**	696
Recognition of premium income	**(2 252)**	(853)
Net exchange differences	**9**	–
Balance at end	**3 168**	2 797
15.2.2 Outstanding claims		
Balance at beginning	**1 396**	–
Business combinations (refer to note 38)	**118**	1 003
Movement in outstanding claims		
Increase in outstanding claims	**37**	393
Net exchange differences	**(3)**	–
Balance at end	**1 548**	1 396

	2015 Rm	Restated 2014 Rm
15.2.3 Liabilities to third-party cell captive owners		
Balance at beginning	**1 303**	–
Charge to the income statement	**(139)**	(72)
Cell tax	**(250)**	(110)
Net fair value gains on assets at fair value through income	**111**	38
Cell captive income	**200**	61
Business combinations (refer to note 38)	**–**	1 196
Premiums	**3 957**	1 120
Reinsurance premiums	**(797)**	(244)
Claims paid	**(1 673)**	(545)
Reinsurance recoveries	**464**	273
Expenses incurred	**(1 040)**	(343)
Dividends paid	**(574)**	(146)
Change in share capital	**102**	1
Net exchange differences	**34**	2
Balance at end	**1 837**	1 303

	2015 Rm	2014 Rm
16 INVESTMENT CONTRACTS		
16.1 Investment contracts with DPF	**26 134**	25 405
16.2 Investment contracts designated at fair value through income	**220 356**	201 651
16.2.1 Investment contract liabilities designated at fair value through income	**212 072**	194 362
16.2.2 Liabilities to first-party cell captive owners	**8 284**	7 289
Total investment contract liability	**246 490**	227 056
Movement in investment contracts with DPF		
16.1 Investment contracts with DPF		
Balance at beginning	**25 405**	24 937
Transfer to policyholder liabilities under investment contracts with DPF	**728**	468
(Decrease)/Increase in retrospective liabilities	**(290)**	791
Unwind of discount rate	**(11)**	(4)
Expected release of margins	**(295)**	(195)
Expected cash flows	**(490)**	(567)
Change in economic assumptions	**5**	(39)
Change in non-economic assumptions	**(8)**	(15)
New business	**1 788**	499
Experience variances	**29**	(2)
Revaluation liability	**–**	(1)
Net exchange differences	**1**	1
Balance at end	**26 134**	25 405
Open-ended	**20 422**	19 068
Current	**753**	667
Non-current	**4 959**	5 670
	26 134	25 405
Movement in investment contracts designated at fair value through income		
16.2 Investment contracts designated at fair value through income		
16.2.1 Investment contract liabilities designated at fair value through income		
Balance at beginning	**194 362**	158 239
Business combinations (refer to note 38)	**38**	1 600
Contract holder movements	**17 551**	34 471
Deposits received	**36 173**	33 221
Contract benefit payments	**(32 423)**	(29 631)
Fees on investment contracts	**(2 063)**	(1 668)
Foreign exchange movement	**–**	(12)
Fair value adjustment to policyholder liabilities under investment contracts	**15 771**	32 632
Changes in share capital, dividends and other items relating to cell captives	**93**	(71)
Net exchange differences	**121**	52
Balance at end	**212 072**	194 362

	2015 Rm	Restated 2014 Rm
16 INVESTMENT CONTRACTS *continued*		
16.2 Investment contracts designated at fair value through income *continued*		
16.2.2 Liabilities to first-party cell captive owners		
Balance at beginning	7 289	1 537
Business combinations (refer to note 38)	–	5 698
Contract holder movements	818	150
Deposits received	1 538	169
Contract benefit payments	(1 492)	(564)
Fees on investment contracts	(111)	(50)
Foreign exchange movement	–	12
Fair value adjustment to policyholder liabilities under investment contracts	268	551
Cell captive expenses	(468)	(26)
Changes in share capital, dividends and other items relating to cell captives	1 083	58
Net exchange differences	177	(96)
Balance at end	8 284	7 289
Open-ended	117 187	105 557
Current	4 084	4 473
Non-current	99 085	91 621
	220 356	201 651

17 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES

The actuarial value of policyholder liabilities arising from long-term insurance contracts is determined using the financial soundness valuation method as described in the actuarial guidance note SAP 104 of the Actuarial Society of South Africa (ASSA). The valuation of contract holder liabilities is a function of methodology and assumptions. The methodology is described in the accounting policies on pages 112 to 116.

The assumptions are set as follows:

- The best estimate for a particular assumption is determined.
- Prescribed margins are then applied, as required by the Long-term Insurance Act of South Africa, 52 of 1998 (the act), and board notice 14 of 2010 issued in terms of the act, as well as SAP 104.
- Discretionary margins may be applied as required by the valuation methodology, or if the statutory actuary considers such margins necessary to cover the risks inherent in the contracts.

The liabilities at 30 June 2015 would have been R13 620 million (2014: R14 161 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 2014 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 2013 for Metropolitan Retail business and December 2014 for Momentum Retail business.
- Home service business: Mortality assumptions are based on internal investigations into mortality experience, with the most recent investigation being for the period 2009 to 2014 for Metropolitan Retail business.

17 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES *continued*

Mortality *continued*

- Annuity business: Mortality assumptions for Metropolitan Retail annuity business are based on internal experience investigations. The most recent investigation was completed in May 2015. 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 2015. Mortality assumptions for Momentum Employee Benefits annuity business is based on the 2002 South African Annuitant standard mortality tables adjusted for experience. The most recent investigation was in respect of the period to December 2014. 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 are done regularly, the most recent being in respect of the period ended March 2014 for Metropolitan Retail business and December 2014 for Momentum Retail and Momentum Employee Benefits business.
- 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 Momentum Employee Benefits business, 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 December 2014.
- Surrender investigations are performed at least annually for MMIGL retail business, the most recent being in respect of the period ended December 2014 for Momentum Retail business and March 2015 for Metropolitan Retail business.
- Experience is analysed by product type as well as policy duration, distribution channel and smoker status.

Expenses

Expense assumptions are based on an expense analysis, using a functional cost approach. This analysis allocates expenses between policy and overhead expenses and within policy expenses, between new business, maintenance and claims, for both group and individual business.

- The budgeted expenses for the following year are taken as an appropriate base from which to set the expense assumptions.
- Provision for future renewal expenses starts at a level consistent with the budgeted expense for the 2016 financial year and allows for escalation at the assumed expense inflation rate of 6.8% (2014: 6.7%). An additional 1% expense inflation is assumed in respect of Momentum Retail 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.
- For non-profit annuity and guaranteed endowment business, 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.
- For other business, a single gilt rate from the government bond yield curve is used, corresponding to the average discounted mean term of the contract liabilities, and rounded to the nearest 10 basis points.
- Investment returns for other asset classes are set as follows:
  - Equity rate: gilt rate + 3.5% (2014: + 3.5%)
  - Property rate: gilt rate + 1.0% (2014: + 1.0%)
  - Corporate bonds: gilt rate + 0.5% (2014: + 0.5%)
  - Cash rate: gilt rate – 1.0% (2014: – 1.0%)

17 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES *continued*

Investment returns *continued*

- An inflation rate of 6.8% p.a. for ZAR-denominated business was used to project future renewal expenses (2014: 6.7% p.a.). This inflation rate was derived by deducting the assumed long-term real return of 1.8% (2014: 1.8%) from the risk-free rate. The assumed long-term real yield is determined with reference to the 10-year real return on CPI-linked government bonds with considerable smoothing applied to limit the volatility of this assumption.
- A rate of 7.8% p.a. (2014: 7.7% p.a.) was used for Momentum Retail business by adding an allowance for book shrinkage of 1.0% p.a. (2014: 1.0% p.a.).
- The main best-estimate investment assumptions, gross of tax, used in the valuation are:

	2015	2014
Risk discount rate	**10.9%**	10.8%
Gilt rate – risk-free investment return	**8.6%**	8.5%
Assumed investment return for individual smoothed bonus business	**10.8%**	10.7%
Renewal expense inflation base rate	**6.8%**	6.7%

Future bonuses

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

Investment guarantees (APN 110)

- Market-consistent stochastic models were calibrated using market data as at 30 June 2015. 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
2015	**6.8**	**7.2**	**7.6**	**7.8**	**8.0**	**8.7**	**9.2**	**9.6**	**9.7**	**9.8**	**9.8**	**9.8**
2014	6.5	7.0	7.4	7.7	7.9	8.7	9.3	9.8	10.0	10.1	10.1	10.0

17 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES *continued*

Investment guarantees (APN 110) *continued*

The following instruments have been valued by the model:

Instrument	2015 Price (% of nominal)	2015 Volatility	2014 Price (% of nominal)	2014 Volatility
A 1-year at-the-money (spot) put on the FTSE/JSE Top 40 index	**5.6%**	**19.4%**	4.7%	16.7%
A 1-year put on the FTSE/JSE Top 40 index, with a strike price equal to 0.8 of spot	**1.4%**	**24.1%**	0.9%	21.1%
A 1-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 1.03770 (2014: 1.03930)	**7.2%**	**18.6%**	6.2%	15.9%
A 5-year at-the-money (spot) put on the FTSE/JSE Top 40 index	**7.8%**	**23.2%**	7.5%	22.5%
A 5-year put on the FTSE/JSE Top 40 index, with a strike price equal to $(1.04)^5$ of spot	**13.9%**	**21.9%**	13.6%	21.2%
A 5-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 1.26820 (2014: 1.29410)	**16.6%**	**21.4%**	16.3%	20.8%
A 20-year at-the-money (spot) put on the FTSE/JSE Top 40 index	**2.7%**	**28.8%**	2.8%	29.8%
A 20-year put on the FTSE/JSE Top 40 index, with a strike price equal to $(1.04)^{20}$ of spot	**11.4%**	**27.9%**	11.5%	29.5%
A 20-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 3.48810 (2014: 3.98730)	**28.0%**	**27.4%**	30.2%	29.5%
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	**6.3%**	**13.7%**	6.2%	13.2%
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	**0.4%**	**N/A**	0.4%	N/A

Tax

- Future tax on investment returns is allowed for, according to current four-fund tax legislation, by appropriately reducing the gross valuation interest rate expected to be earned in the future on the various books of business.
- A long-term assumption is made for assumed future tax relief on expenses, based on past experience and expected future trends.
- No value has been attributed to any assessed losses in the contract holder tax funds.

Basis and other changes

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

- Basis and other changes decreased the excess of assets over liabilities at 30 June 2015 by R160 million (2014: R457 million) for the group. The major contributors to this change were as follows:
  - Actuarial methodology and other changes – negative R314 million (2014: negative R388 million).
  - Experience basis changes – positive R154 million (2014: negative R87 million). The experience basis changes are in respect of withdrawal, expense and mortality assumptions.
  - Economic assumption changes – Rnil (2014: positive R18 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.
- The 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 is included under this heading.

17 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES *continued*

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.

2015	Liability Rm	Renewal expenses decrease by 10% Rm	Expense inflation decreases by 1% Rm	Discontinuance rates decrease by 10% Rm	Mortality and morbidity decrease by 5% Rm	Investment returns reduce by 1% Rm
Insurance business						
Retail insurance business (excluding annuities)	**61 865**	**61 200**	**61 141**	**62 165**	**60 210**	**62 214**
Annuities (retail and employee benefits)	**37 851**	**37 673**	**37 713**	**37 851**	**38 386**	**39 911**
Employee benefits business (excluding annuities)	**3 824**	**3 823**	**3 823**	**3 824**	**3 837**	**3 843**
Investment with DPF business	**26 073**	**26 054**	**26 064**	**26 074**	**26 072**	**26 133**
Investment business	**210 487**	**209 483**	**209 489**	**209 494**	**209 493**	**211 139**
Subtotal	**340 100**	**338 233**	**338 230**	**339 408**	**337 998**	**343 240**
Cell captive and short-term business	**17 719**					
Total	**357 819**	**338 233**	**338 230**	**339 408**	**337 998**	**343 240**
2014						
Insurance business						
Retail insurance business (excluding annuities)	64 873	63 953	64 084	65 015	63 261	64 843
Annuities (retail and employee benefits)	36 037	35 803	35 930	36 035	36 364	37 635
Employee benefits business (excluding annuities)	3 609	3 603	3 606	3 606	3 614	3 669
Investment with DPF business	25 347	25 323	25 334	25 348	25 343	25 373
Investment business	192 786	192 786	192 793	192 797	192 798	194 018
Subtotal	322 652	321 468	321 747	322 801	321 380	325 538
Cell captive and short-term business	15 947					
Total	338 599	321 468	321 747	322 801	321 380	325 538

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

The above sensitivities were chosen because they represent the main assumptions regarding future experience that the 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 embedded value report and also to facilitate comparisons with similar sensitivities published by other insurance companies in South Africa.

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

The table does not show the financial impact of variances in lump sum mortality and morbidity claims in respect of employee benefits business because of the annually renewable nature of this class of insurance. An indication of the sensitivity of financial results to mortality and morbidity variances in this class of business can be obtained by noting that a 5% (2014: 5%) increase in mortality and morbidity lump sum benefits paid on employee benefits business in any given year will result in a reduction of R113 million (2014: R106 million) in the before-tax earnings of the group.

17 **CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES** *continued*

Sensitivity analysis *continued*

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.

		2015 Rm	2014 Rm
18	**FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH INCOME**		
	Collective investment scheme liabilities	**25 869**	22 313
	Subordinated call notes	**3 320**	2 573
	Carry positions	**9 370**	4 851
	Preference shares	**1 016**	1 001
	Other	**145**	63
		39 720	30 801
	Current	**36 418**	26 414
	Non-current	**3 302**	4 387
		39 720	30 801

- 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 Financial Services Board (FSB) granted approval for MMIGL to raise the following debt issuances:
  - On 8 March 2006, MMIGL issued R1 billion of subordinated, unsecured callable notes, with a legal maturity date of 15 September 2020. These notes are callable by MMIGL from 15 September 2015. The notes were issued at a spread of 70 basis points over the R157 government bond yield at the time.
    The coupon rate is fixed at 8.5% per annum, payable bi-annually on 15 March and 15 September, until the first call date (15 September 2015). At the first call date, a step-up of 80% of the initial credit spread will apply and interest will convert from fixed to floating, payable quarterly on 15 March, 15 June, 15 September and 15 December.
    MMIGL has hedged the fixed coupon rate on this liability by entering into a swap agreement with FirstRand Ltd whereby MMIGL earns interest at the same fixed coupon rate and pays interest at a floating rate. Both the interest rate swap (as disclosed under derivative financial instruments – held for hedging purposes in note 6.3) and the principal instrument have been fair valued.
  - On 17 March 2014, MMIGL issued R750 million of subordinated, unsecured callable notes, with a legal maturity date of 17 March 2024. These notes are callable by MMIGL from 17 March 2019. The notes were issued at a spread of 146 basis points over the three-month JIBAR interest rate.
    The coupon rate is floating at the three-month JIBAR interest rate plus 1.46% (nacq) per annum, payable quarterly on 17 March, 17 June, 17 September and 17 December, until the first call date (17 March 2019). At the first call date, the margin over the reference rate will increase to 2.46% (nacq).
  - On 17 March 2014, MMIGL issued R750 million of subordinated, unsecured callable notes, with a legal maturity date of 17 March 2026. These notes are callable by MMIGL from 17 March 2021. The notes were issued at a spread of 170 basis points over the R208 government bond yield at the time.
    The coupon rate is fixed at 10.065% per annum, payable bi-annually on 17 March and 17 September, until the first call date (17 March 2021). At the first call date, the margin over the reference interest rate will increase to 270 basis points and interest will convert from fixed to floating, payable quarterly on 17 March, 17 June, 17 September and 17 December.
    MMIGL has hedged the fixed coupon rate (excluding the fixed credit spread) on this liability by entering into a swap agreement with Absa Bank Ltd whereby MMIGL earns interest at a fixed coupon rate and pays interest at a floating rate. Both the interest rate swap (as disclosed under derivative financial instruments – held for hedging purposes in note 6.3) and the principal instrument have been fair valued.
  - On 1 December 2014, MMIGL issued an amount of R750 million of subordinated, unsecured callable notes in the market. The notes have a legal maturity of 10.5 years (callable after 5.5 years) and were issued at a spread of 2.3% p.a. over the three-month JIBAR interest rate.

MMIGL has sufficient cash to cover the debt.

18 FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH INCOME *continued*

- Carry positions (secured) – In the prior year R2 592 million related to a carry position with Rand Merchant Bank that represented a sale and repurchase of assets in Momentum's annuity portfolio. These carry positions were secured by government stock with a value of R2 797 million. These carry positions are now being managed internally. The total value of the carry positions now managed internally amounts to R6 056 million which is secured by government stock with a value of R5 884 million.
- Carry positions (secured) – R3 313 million (2014: R1 117 million) relates to a carry position reported by Momentum Asset Managers that represents a sale and repurchase of assets in Momentum's annuity portfolio. These carry positions are secured by government stock with a value of R6 467 million (2014: R1 232 million).
- 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 Ltd. The declaration of preference dividends is calculated at 77% of JIBAR plus 175 basis points and is 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 and the ultimate redemption date is 27 June 2017.
- Included in other financial liabilities designated at fair value through income:
  - R30 million (2014: R58 million) of future contingent payments relating to Providence. Refer to note 38. The contingent future liability relates to an additional payment to be made within the next year based on the performance of the Providence group acquisition; therefore the actual amount paid could differ from the amount being provided for.
    The valuation of the contingent consideration has been calculated by taking management's best estimates of the forecasted Providence earnings before taxation, adding back depreciation and interest received multiplied by the rate agreed upon in the purchase agreement being 120%.
  - 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 embedded value. In terms of IFRS, the group has recognised a financial liability of R111 million, being the present value of the estimated purchase price, for exercising this option. The group has consolidated 96% of the subsidiaries' results and de-recognised the non-controlling interest due to the financial liability recognised above, which is in line with its selected accounting policy.

	2015 Rm	2014 Rm
19 FINANCIAL LIABILITIES AT AMORTISED COST		
Borrowings		
Cumulative redeemable convertible preference shares	**293**	313
Subordinated redeemable debt	**–**	511
Finance lease liabilities	**2**	2
Other	**797**	637
	1 092	1 463
Current	**443**	530
Non-current	**649**	933
	1 092	1 463

19.1 Cumulative redeemable convertible preference shares

Metropolitan Holdings Ltd, now MMI Holdings Ltd, had 34 381 139 A3 cumulative convertible redeemable preference shares in issue (to Kagiso Tiso Holdings (KTH), the group's strategic BEE partner) at the beginning of the year. Dividends were 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 redeemable date of 29 June 2017. On each of 13 November 2014 and 31 March 2015, 1.1 million preference shares were converted into ordinary shares. The ordinary shares were originally issued at a price of R10.18 per share. An annual dividend of 132 cents per share is still payable on the remaining preference shares semi-annually in arrears on 31 March and 30 September each year. In the prior year, the group took over as a funder for the duration of this extension by acquiring preference shares in a KTH subsidiary (refer to note 7). The extension has been accounted for as a renegotiation of the original agreement and not as a settlement as the effect of the change was not significant. There was also no IFRS 2 cost resulting from this extension.

The equity component of the preference shares is included in note 14(f).

19 FINANCIAL LIABILITIES AT AMORTISED COST *continued*

19.2 Subordinated redeemable debt

The FSB granted approval for Metropolitan Life Ltd to raise debt on 10 November 2006. Metropolitan Life Ltd issued R500 million unsecured subordinated notes in December 2006 with a nominal value of R1 million per note, at 99.7% of the nominal amount. The notes were mixed rate notes with an optional conversion from fixed rate to floating rate after eight years and compulsory redemption after a further five years. The fixed coupon rate is 9.25% per annum, and both the fixed and floating rate payment dates are 15 June and 15 December from issue date (15 December 2006). The issuer had the option to redeem the debt from 15 December 2014 and the ultimate maturity date was 15 December 2019. The debt was redeemed on 15 December 2014.

19.3 Other

Included in other financial liabilities at amortised cost is:

- a R489 million (2014: R463 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 the prime rate minus 1%. The loan is secured by the underlying property.
- a R153 million (2014: Rnil) loan from Absa Bank Ltd in order to develop property held by a subsidiary. Interest on the loan is levied at the prime rate. The loan is secured by the underlying property.

		2015 Rm	Restated 2014 Rm
20	**REINSURANCE CONTRACT LIABILITIES**		
	Balance at beginning	**202**	–
	Change in liabilities under reinsurance agreements	**457**	202
	New financial reinsurance agreements	**467**	178
	Change in estimates	**(10)**	24
	Balance at end	**659**	202
	Current	**140**	3
	Non-current	**519**	199
		659	202

The reinsurance liability relates to a financial reinsurance agreement with a registered reinsurer, 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 17 for relevant assumptions and estimates applied in valuation of the reinsurance liabilities.

	SSPF Rm	SGPF Rm	MSRF Rm	MSPF Rm	Other Rm	Total Rm
21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS						
21.1 Employee benefit assets						
2015						
Present value of funded obligation	–	–	–	(2)	–	(2)
Fair value of plan assets	–	230	116	62	3	411
	–	230	116	60	3	409
Applied limit	–	–	–	(1)	–	(1)
Net asset recognised	–	230	116	59	3	408
Movement in present value of funded obligation						
Balance at beginning	–	1	–	18	–	19
Interest expense	–	–	–	1	–	1
Recognised in other comprehensive income	–	–	–	(1)	–	(1)
Settlements	–	(1)	–	(16)	–	(17)
Balance at end – current	–	–	–	2	–	2
Movement in fair value of plan assets						
Balance at beginning	1	218	117	85	6	427
Derecognition of retirement fund asset	–	–	–	(11)	–	(11)
Return on plan assets	–	20	10	10	1	41
Recognised in other comprehensive income	(1)	(3)	(3)	(7)	–	(14)
Employer contributions	–	–	(8)	–	–	(8)
Benefits paid	–	(5)	–	–	(10)	(15)
Settlements	–	–	–	(15)	–	(15)
Other	–	–	–	–	6	6
Balance at end	–	230	116	62	3	411
Current	–	–	8	3	–	11
Non-current	–	230	108	59	3	400
	–	230	116	62	3	411

	SSPF Rm	SGPF Rm	MSRF Rm	MSPF Rm	Other Rm	Total Rm
21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*						
21.1 Employee benefit assets *continued*						
2014						
Present value of funded obligation	–	(1)	–	(18)	–	(19)
Fair value of plan assets	1	218	117	85	6	427
	1	217	117	67	6	408
Applied limit	–	–	–	(3)	–	(3)
Net asset recognised	1	217	117	64	6	405
Movement in present value of funded obligation						
Balance at beginning	3	2	–	458	2	465
Interest expense	–	–	–	16	–	16
Past service costs and losses on settlements expensed	–	–	–	107	–	107
Recognised in other comprehensive income	3	–	–	(8)	(1)	(6)
Benefits paid	(6)	(1)	–	(13)	(1)	(21)
Settlements	–	–	–	(542)	–	(542)
Balance at end	–	1	–	18	–	19
Current	–	–	–	18	–	18
Non-current	–	1	–	–	–	1
	–	1	–	18	–	19
Movement in fair value of plan assets						
Balance at beginning	7	205	112	229	13	566
Recognition of retirement fund asset	–	–	–	389	–	389
Return on plan assets	–	19	3	(44)	1	(21)
Recognised in other comprehensive income	–	(4)	12	27	(3)	32
Employer contributions	–	–	(10)	–	(2)	(12)
Benefits paid	(6)	(2)	–	26	(3)	15
Settlements	–	–	–	(542)	–	(542)
Balance at end	1	218	117	85	6	427
Current	–	–	4	17	–	21
Non-current	1	218	113	68	6	406
	1	218	117	85	6	427

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21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*

21.1 Employee benefit assets *continued*

MMI Group Retirement Scheme (MGRS)

With effect from 1 July 2013, the majority of the Momentum and Metropolitan staff of the funds below converted to the MGRS. The MGRS is a defined contribution fund. Contributions for the current year are included in note 32.

Momentum Staff Pension Funds

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 Southern Staff Pension Fund (SSPF), Sage Group Pension Fund (SGPF) and Momentum Life Pension Fund (MLPF) (which is included in Other on page 158 and page 159) are final salary defined benefit plans. The SSPF no longer has any assets in the fund and is in the process of being deregistered. A section 14 application for the SGPF is pending and it is expected that the fund will be liquidated or deregistered within the next financial year. The MLPF was liquidated during the current financial year.

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

The key valuation assumptions for the Momentum SPFs are:

Assumptions	Base assumption
Discount rate	9.0% (2014: 9.0%)
Expected rate of return on plan assets	9.0% (2014: 9.0%)
Salary inflation rate	7.0% (2014: 6.0% – 7.0%)
Net post-retirement interest rate	2.0% (2014: 2.0%)
Normal retirement age	60 – 65 years
Mortality	
Pre-retirement	SA 72-77 ultimate, with female rates equal to 70% of male rates
Post-retirement	PA(90) minus 2, with ill-health (disability) retirements rated up by 10 years

Metropolitan Staff Retirement Fund (MSRF)

The MSRF is a defined contribution arrangement with two separately registered sections: pension and provident. Members contribute at a fixed percentage of salary to the pension fund section and the employer contributes to the provident fund section. The employer's share of the surplus in the old defined benefit fund, which was transferred to the defined contribution fund on 1 April 1999, was kept in the employer contribution subsidy reserve account until 1 April 2002 (the surplus apportionment date). The surplus apportionment scheme of the provident section was approved by the FSB in June 2008. The surplus has been transferred to the Employer Surplus Account (ESA), which is being used by the employer to subsidise contributions to the fund. The pension fund section submitted a nil return that was noted by the FSB. The fair value of the plan assets represents the balance of the ESA valued at market value at year-end.

Metropolitan Staff Pension Fund (MSPF)

This defined benefit scheme has been closed to new members since 1 April 1999. MMIGL is required to meet the balance of the cost of providing the fund benefits as recommended by the valuator on the basis of the ongoing triennial statutory actuarial valuations. A nil return was noted by the FSB in October 2005. Subsequent to the surplus apportionment date (1 April 2002), a surplus has emerged in the fund. During the 2014 financial year the majority of the remaining active members transferred to other retirement fund arrangements in the group and the pensioners were transferred to an insured arrangement due in part to the employer's decision to consolidate the provision of retirement and insurance benefits. During the 2015 financial year, almost all the remaining active members were transferred out to other retirement fund arrangements; the balance will be transferred in the 2016 financial year. The intention is to wind-up the fund during the next financial year. The liability at 30 June 2015 is based on the transfer value of the remaining active members. Fair value of the plan assets is determined with reference to the approximate rate of investment return earned by the fund until June 2015. A limit was applied to the net plan assets in terms of IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, based on the balance of the ESA of the MSPF.

21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*

21.1 Employee benefit assets *continued*

The key valuation assumptions for the MSRF and MSPF are:

Assumptions	Base assumption
Valuation rate of interest	**9% (2014: 9%)**
Expected rate of return	**9% – based on the valuation rate of interest (2014: 9%)**
Salary inflation rate	**N/A (2014: 7%)**
Net post-retirement interest rate	**N/A (2014: 3%)**
Normal retirement age	**60 – 65 years**
Mortality	
Pre-retirement	**SA 72-77 ultimate, with female rates equal to 70% of male rates**
Post-retirement	**PA(90) minus 2, with ill-health (disability) retirements rated up to 10 years**

The assets of these schemes are held in separately administered funds. The assets of MLPF, SSPF, and MSRF comprise of cash and cash equivalents.

SGPF and MSPF comprise of the following:

The plan assets as a percentage (%) comprise:	2015 SGPF	2015 MSPF	2014 SGPF	2014 MSPF
Equity securities – quoted (active market)	**–**	**18**	–	2
Debt securities				
Quoted (active market)	**–**	**12**	–	2
Quoted (inactive market) and unquoted	**–**	**22**	–	17
Property	**–**	**3**	–	–
Foreign assets – quoted (active market)	**–**	**–**	–	1
Foreign assets – quoted (inactive market) and unquoted	**–**	**6**	–	–
Cash and cash equivalents	**97**	**39**	96	78
Insurance policy	**3**	**–**	4	–
	100	**100**	100	100

Income statement movement and future contributions

The total movement of R42 million (2014: R66 million) is recognised in the income statement in employee benefit expenses (refer to note 32). Future employer contributions are estimated to be minimal given the planned wind-up of the MSPF in the following year.

	2015 Rm	2014 Rm
21.2 Employee benefit obligations		
(a) Post-retirement medical benefits	**322**	299
(b) Cash-settled arrangements	**645**	521
(c) Other employee benefit obligations	**768**	426
Total employee benefit obligations	**1 735**	1 246
Current	**813**	448
Non-current	**922**	798
	1 735	1 246

Employee benefit expenses are included in the income statement. Refer note 32.

		2015 Rm	2014 Rm
21	**EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS** *continued*		
21.2	**Employee benefit obligations** *continued*		
(a)	**Post-retirement medical benefits**		
	Balance at beginning – unfunded	**299**	279
	Business combinations (refer to note 38)	**8**	–
	Current service costs	**2**	1
	Interest expense	**26**	24
	Actuarial losses	**9**	15
	Employer contributions	**(16)**	(16)
	Benefits paid	**(6)**	(4)
	Balance at end – unfunded	**322**	299
	Current	**26**	21
	Non-current	**296**	278
		322	299

Valuation methodology

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

The key valuation assumptions are:

Assumptions	Base assumption	Change in significant assumption	Change in value of liability: Decrease in significant assumption Rm	Change in value of liability: Increase in significant assumption Rm
Healthcare cost inflation rate				
Defined benefit fund	**8% (2014: 8%)**	**4%**	**(24)**	**29**
Defined contribution fund	**8% (2014: 8%)**	**1%**	**(10)**	**12**
Valuation rate of interest/discount rate	**9% (2014: 9%)**			
Administration fee inflation	**7% (2014: 7%)**			
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 14.2 years (2014: 14.5 years).

	2015 Rm	2014 Rm
21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*		
21.2 Employee benefit obligations *continued*		
(b) Cash-settled arrangements		
Retention and remuneration schemes		
Balance at beginning	**521**	368
Additional provisions	**456**	391
Benefits paid	**(332)**	(238)
Balance at end	**645**	521
Current	**358**	277
Non-current	**287**	244
	645	521

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)

The Momentum Sales Scheme 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.

Momentum Conditional Share Plan (MomCSP)

The purpose of the MomCSP was to serve as a substitution scheme for certain schemes that Momentum employees participated in prior to the merger between Metropolitan and Momentum.

Certain ex-Momentum employees had awards relating to FirstRand schemes. The CSP allowed the group to make conditional awards to these employees in substitution for their rights under the FirstRand schemes, in order to retain their services and to encourage them to build up a shareholding in the group and thus increase the alignment of their interests with the interests of the other shareholders of MMI Holdings Ltd. Awards vested equally over the third, fourth and fifth anniversary. The scheme was cash-settled and no MMI Holdings Ltd shares has been issued in settlement of this obligation. The final tranche (30 000 units) was redeemed in November 2014.

MMI share schemes

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

MMI Long-term Retention Award Scheme (MMI LTRAS)

The purpose of this scheme was to attract, retain, motivate and reward eligible employees who are able to influence the performance of the group and to give such employees an incentive to advance the group's interests for the ultimate benefit of all its stakeholders.

The MMI LTRAS was a phantom scheme in that a participant was not entitled to MMI shares but rather to a cash sum from the employer calculated on the basis of the number of participation units which vested at the fair market price of an MMI share (average of 20 trading days before the vesting date).

The award date was 1 January 2011 and the vesting date was either 1 December 2013 or 1 December 2014.

The cash sum was only paid out if the employee remained in the employ of the group for the full vesting period and if certain performance criteria (as determined by the board from time to time) had been met.

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.

21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*

21.2 Employee benefit obligations *continued*

(b) Cash-settled arrangements *continued*

MMI share schemes *continued*

MMI Long-term Incentive Plan (MMI LTIP) *continued*

The performance units have performance criteria based on minimum hurdles related to the return on embedded value 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.

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), whilst participants that are responsible for risk management functions are awarded retention units (vesting subject to the individual's performance criteria being met).

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

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

21 **EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS** *continued*

21.2 **Employee benefit obligations** *continued*

(b) **Cash-settled arrangements** *continued*

MSS	2015 '000	2014 '000
Options in force at 1 July	12 442	14 949
Granted at prices ranging from (cents)	1 306 – 2 256	1 306 – 2 256
Options exercised/released during year	(3 134)	(1 307)
Market value of range at date of exercise/release (cents)	2 656 – 3 290	2 255 – 2 471
Options cancelled/lapsed during year	(453)	(1 200)
Granted at prices ranging from (cents)	1 699 – 2 100	1 306 – 2 256
Options in force at 30 June	8 855	12 442
Granted at prices ranging from (cents)	1 306 – 2 256	1 306 – 2 256
Units outstanding (by expiry date) for MSS are as follows:		
Financial year 2014/2015	–	3 100
Financial year 2015/2016	3 963	4 169
Financial year 2016/2017	3 228	3 427
Financial year 2017/2018	1 664	1 746
Total outstanding shares	8 855	12 442

	2015	2014
Valuation assumptions of MSS:		
Share price	R29.82	R26.15
Volatility	10.00% – 11.90%	9.85% – 13.12%
Dividend yield	4.40%	5.09%
Forfeiture rate	5.00%	5.00%
Risk-free yield curve	5.50% – 7.10%	4.71% – 7.24%

21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*

21.2 Employee benefit obligations *continued*

(b) Cash-settled arrangements *continued*

	MomCSP '000	MMI LTRAS '000
Units in force at 1 July 2013	1 425	8 033
Units granted during year	–	–
Units exercised/released during year	(1 379)	(7 483)
Market value of range at date of exercise/release (cents)	2 181 – 2 690	2 530
Units cancelled/lapsed during year	(16)	(306)
Units in force at 1 July 2014	**30**	**244**
Units granted during year	**–**	**–**
Units exercised/released during year	**(30)**	**(244)**
Market value of range at date of exercise/release (cents)	**2 720**	**3 077**
Units cancelled/lapsed during year	**–**	**–**
Units in force at 30 June 2015	**–**	**–**

Units outstanding (by expiry date) for the MMI LTIP, MSPS and MMI OP at 30 June 2015 are as follows:

2015
Financial year 2015/2016
Financial year 2016/2017
Financial year 2017/2018
Financial year 2018/2019
Financial year 2019/2020
Total outstanding shares

Valuation assumptions relating to outstanding units at 30 June:

MMI LTIP 2015	Retention units 2nd tranche	3rd tranche	4th tranche	5th tranche	6th tranche	7th tranche
Award date	**01 Nov 12**	**02 Apr 13**	**15 Oct 13**	**05 Mar 14**	**02 May 14**	**25 Sep 14**
Vesting date	**01 Nov 15**	**02 Apr 16**	**15 Oct 16**	**05 Mar 17**	**02 May 17**	**25 Sep 16**
Outstanding units (thousands)	**4 421**	**71**	**4 535**	**1 009**	**154**	**553**
Valuation assumptions include:						
Outstanding tranche period in years	**0.33**	**0.75**	**1.29**	**1.67**	**1.83**	**1.25**
Take-up rate on units outstanding	**94%**	**94%**	**88%**	**88%**	**88%**	**88%**
Current vesting rate	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Adjusted share price, adjusted for future dividends and past special distributions	**R 30.15**	**R 30.15**	**R 30.15**	**R 30.15**	**R 30.15**	**R 30.15**

2014	Retention units 1st tranche	2nd tranche	3rd tranche	4th tranche	5th tranche	6th tranche
Award date	01 Oct 11	01 Nov 12	02 Apr 13	15 Oct 13	05 Mar 14	02 May 14
Vesting date	01 Oct 14	01 Nov 15	02 Apr 16	15 Oct 16	05 Mar 17	02 May 17
Outstanding units (thousands)	4 327	4 743	67	4 721	970	145
Valuation assumptions include:						
Outstanding tranche period in years	0.25	1.33	1.75	2.29	2.67	2.83
Take-up rate on units outstanding	94%	88%	88%	82%	82%	82%
Current vesting rate	100%	100%	100%	100%	100%	100%
Adjusted share price, adjusted for future dividends and past special distributions	R 26.18	R 26.25	R 26.25	R 26.25	R 26.25	R 26.25

	MMI LTIP Retention units '000	MMI LTIP Performance units '000	MSPS '000	MMI OP Retention units '000	MMI OP Performance units '000
	9 799	13 328	–		
	6 278	7 201	1 749		
	(47)	(38)	–		
	2 080 – 2 563	2 080 – 2 563	–		
	(1 057)	(823)	–		
	14 973	**19 668**	**1 749**	**–**	**–**
	6 886	**7 239**	**2 385**	**187**	**10 204**
	(4 470)	**(6 140)**	**–**	**–**	**–**
	2 569 – 3 373	**2 569 – 3 373**	**–**	**–**	**–**
	(1 314)	**(2 138)**	**(251)**	**–**	**(93)**
	16 075	**18 629**	**3 883**	**187**	**10 111**

	MMI LTIP Retention units '000	MMI LTIP Performance units '000	MSPS '000	MMI OP Retention units '000	MMI OP Performance units '000
	4 492	**6 218**	**–**	**–**	**–**
	6 251	**6 274**	**543**	**–**	**–**
	5 332	**6 137**	**1 294**	**–**	**–**
	–	**–**	**1 294**	**112**	**6 067**
	–	**–**	**752**	**75**	**4 044**
	16 075	**18 629**	**3 883**	**187**	**10 111**

	Retention units 8th tranche	Retention units 9th tranche	Performance units 2nd tranche	Performance units 3rd tranche	Performance units 4th tranche	Performance units 5th tranche	Performance units 6th tranche	Performance units 7th tranche
	01 Oct 14	**01 Apr 15**	**01 Nov 12**	**02 Apr 13**	**15 Oct 13**	**02 May 14**	**01 Oct 14**	**01 Apr 15**
	01 Oct 17	**01 Apr 18**	**01 Nov 15**	**02 Apr 16**	**15 Oct 16**	**02 May 17**	**01 Oct 17**	**01 Apr 18**
	5 314	**18**	**6 123**	**95**	**5 580**	**694**	**6 124**	**13**
	2.25	**2.75**	**0.33**	**0.75**	**1.29**	**1.83**	**2.25**	**2.75**
	82%	**82%**	**94%**	**94%**	**88%**	**88%**	**82%**	**82%**
	100%	**100%**	**100%**	**100%**	**100%**	**100%**	**125%**	**125%**
	R 30.15	**R 30.15**	**R 30.15**	**R 30.15**	**R 30.15**	**R 30.15**	**R 30.15**	**R 30.15**

	Performance units 1st tranche	Performance units 2nd tranche	Performance units 3rd tranche	Performance units 4th tranche	Performance units 5th tranche
	01 Oct 11	01 Nov 12	02 Apr 13	15 Oct 13	02 May 14
	01 Oct 14	01 Nov 15	02 Apr 16	15 Oct 16	02 May 17
	6 054	6 797	90	5 972	755
	0.25	1.33	1.75	2.29	2.83
	94%	88%	88%	82%	82%
	100%	100%	100%	100%	100%
	R 26.25	R 26.25	R 26.25	R 26.25	R 26.25

21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*

21.2 Employee benefit obligations *continued*

(b) Cash-settled arrangements *continued*

Valuation assumptions relating to outstanding units at 30 June *continued*

Vesting rate assumptions regarding performance units in the table on the previous page:

As stated on page 164, 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 64 of this integrated report.

For tranches allocated prior to 1 October 2014, there are two performance criteria, the first being an absolute targeted Return on Embedded Value (ROEV) of nominal GDP +3% average over the vesting period. The second criteria is an ROEV Index measure which compares MMI's average ROEV to that of its peer group over the vesting period.

The vesting rate assumption regarding the absolute ROEV target is determined with reference to MMI's forecasted ROEV over the remaining vesting period, relative to the expected nominal GDP growth. The vesting rate assumption regarding the ROEV Index, for tranches allocated prior to 1 October 2014, is determined with reference to MMI's expected ROEV relative to its peers based on actual published ROEV data. Due to the volatility in the valuation model, only once reliable evidence exists that a vesting rate assumption of more than 100% is likely to be achieved, will the vesting rate assumption be adjusted upward. For each 1% outperformance of the average ROEV of the peer group, the vesting percentage increases by 15%, subject to a maximum additional vesting of 150% of the allocated performance units. Each 1% outperformance of the average ROEV of the peer group would result in an increase of R34 million in the liability under cash-settled arrangements at 30 June 2015 (2014: R40 million).

For all tranches allocated from 1 October 2014 onwards, the vesting rate assumption regarding the ROEV Index is linked to the group's absolute ROEV target of nominal GDP +3% per annum and an outperformance target of nominal GDP +6% per annum. The peer group measure has been removed. The vesting rate assumption is determined with reference to MMI's actual ROEV relative to the targeted and outperformance growth. Again due to volatility in the valuation model, only once reliable evidence exists that the vesting rate assumption of more than 100% is likely to be achieved, will the vesting rate assumption be adjusted upward. For each 1% outperformance of the average ROEV of nominal GDP +3%, the vesting percentage increases by 33%, subject to a maximum additional vesting of 100% of the allocated performance units. Each 1% outperformance of the average ROEV of nominal GDP +3% would result in an increase of R21 million in the liability under cash-settled arrangements at 30 June 2015.

The 6% per annum participant attrition rate assumption is also applied to the performance units.

MSPS 2015	1st tranche	2nd tranche	3rd tranche	4th tranche	5th tranche	6th tranche
Award date	01 Nov 13	01 Nov 13	01 Nov 13	01 Mar 14	01 Mar 14	01 Mar 14
Vesting date	01 Nov 16	01 Nov 17	01 Nov 18	01 Mar 17	01 Mar 18	01 Mar 19
Outstanding units (thousands)	531	531	531	12	12	12
Valuation assumptions include:						
Outstanding tranche period in years	1.33	2.33	3.33	1.67	2.67	3.67
Take-up rate on units outstanding	100%	100%	100%	100%	100%	100%
Current vesting rate	95%	95%	95%	95%	95%	95%

2014	1st tranche	2nd tranche	3rd tranche
Award date	01 Nov 13	01 Nov 13	01 Nov 13
Vesting date	01 Nov 16	01 Nov 17	01 Nov 18
Outstanding units (thousands)	583	583	583
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%

7th tranche	8th tranche	9th tranche	10th tranche	11th tranche	12th tranche	13th tranche	14th tranche	15th tranche
01 Oct 14	01 Oct 14	01 Oct 14	01 Nov 14	01 Nov 14	01 Nov 14	01 Mar 15	01 Mar 15	01 Mar 15
01 Oct 17	01 Oct 18	01 Oct 19	01 Nov 17	01 Nov 18	01 Nov 19	01 Mar 18	01 Mar 19	01 Mar 20
104	104	104	571	571	571	77	77	77
2.25	3.25	4.25	2.33	3.33	4.33	2.67	3.67	4.67
100%	100%	100%	100%	100%	100%	100%	100%	100%
95%	95%	95%	95%	95%	95%	95%	95%	95%

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21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*

21.2 Employee benefit obligations *continued*

(b) Cash-settled arrangements *continued*

Valuation assumptions relating to outstanding units at 30 June *continued*

MomCSP, MMI LTRAS, and MMI OP

	MMI OP			
	Retention units		Performance units	
2015	1st tranche	2nd tranche	1st tranche	2nd tranche
Award date	**05 Mar 15**	**05 Mar 15**	**05 Mar 15**	**05 Mar 15**
Vesting date	**01 Oct 18**	**01 Oct 19**	**01 Oct 18**	**01 Oct 19**
Outstanding units (thousands)	**112**	**75**	**6 066**	**4 044**
Valuation assumptions include:				
Outstanding tranche period in years	**3.25**	**4.25**	**3.25**	**4.25**
Take-up rate on units outstanding	**100%**	**100%**	**20%**	**20%**
Current vesting rate	**76%**	**70%**	**76%**	**70%**

2014	Mom CSP 5th tranche	MMI LTRAS 2nd tranche
Award date	03 Nov 08	01 Jan 11
Vesting date	03 Nov 14	01 Dec 14
Outstanding units (thousands)	30	244
Valuation assumptions include:		
Outstanding tranche period in years	0.33	0.42
Take-up rate on units outstanding	94%	94%
Current vesting rate	100%	100%
Adjusted share price, adjusted for future dividends and past special distributions	R 26.18	R 26.18

Tranches vested during the current or prior year

MMI LTIP: The first tranche of the MMI LTIP was settled in October 2014 at R29.07 per share totalling R277 million.

MomCSP: The fifth tranche of the MomCSP was settled in November 2014 at R27.20 per share totalling R1 million.

MMI LTRAS: The second tranche of the MMI LTRAS was settled in December 2014 at R30.77 per share at a 100% vesting rate totalling R189 million.

Share-based payment expense

The share-based payment expense relating to cash-settled schemes is R456 million (2014: R391 million) for the group and is disclosed under employee benefit expenses in note 32.

	2015 Rm	2014 Rm
22 OTHER PAYABLES		
Payables arising from insurance contracts and investment contracts with DPF	4 283	3 925
Claims in process of settlement		
Insurance contracts	1 838	1 576
Investment contracts with DPF	135	154
Premiums paid in advance	1 818	1 529
Due to reinsurers	492	666
Payables arising from investment contracts	1 451	1 025
Deferred revenue liability	409	360
Financial instruments	7 919	5 127
Collective investment scheme income distribution payable	636	218
Unsettled trades	3 187	992
Commission creditors	573	550
Other payables	3 523	3 367
	14 062	10 437
Current	13 612	10 163
Non-current	450	274
	14 062	10 437
Reconciliation of deferred revenue liability		
Balance at beginning of year	360	257
Deferred income relating to new business	113	101
Business combinations (refer to note 38)	–	83
Amount recognised in income statement (refer to note 27)	(64)	(81)
Balance at end of year	409	360

	2015 Rm	2014 Rm
23 PROVISIONS		
Balance at beginning of year	157	180
Additional provisions	52	245
Utilisation of provisions	(84)	(230)
Unutilised amounts reversed	(43)	(38)
Exchange differences	(4)	–
Balance at end of year	78	157
Current	9	153
Non-current	69	4
	78	157

The provisions relate to individually small items with no single significant amount.

	2015 Rm	2014 Rm
24 NON-CURRENT ASSETS AND LIABILITIES HELD FOR SALE		
Non-current assets held for sale		
Balance at beginning of year	17	680
Disposals	(17)	(663)
Balance at end of year	–	17

The non-current assets held for sale balance in the prior year related to investment properties which were pending transfer.

		2015 Rm	Restated 2014 Rm
25	**INCOME TAX**		
25.1	**Current income tax (assets)/liabilities**		
	Current income tax assets	**(365)**	(330)
	Current income tax liabilities	**166**	255
		(199)	(75)
	Balance at beginning	**(75)**	159
	Charged to income statement	**2 638**	2 433
	Additional provisions	**1 830**	2 311
	Additional prior year provisions	**–**	2
	Tax attributable to cell captive owners	**808**	120
	Paid during year	**(2 752)**	(2 939)
	Business combinations (refer to note 38)	**(13)**	268
	Other	**3**	4
	Balance at end	**(199)**	(75)
25.2	**Income tax expenses/(credits)**		
	Current taxation	**2 638**	2 433
	Shareholder tax		
	South African normal tax – current year	**1 363**	1 278
	South African normal tax – prior year	**(2)**	(38)
	Foreign countries – normal tax	**85**	69
	Foreign withholding tax	**101**	27
	Contract holder tax		
	Tax on contract holder funds – current year	**283**	440
	Tax on contract holder funds – prior year	**–**	156
	Tax attributable to cell captive owners	**808**	501
	Deferred tax	**(207)**	25
	Shareholder tax		
	South African normal tax – current year	**(326)**	(316)
	South African normal tax – prior year	**–**	8
	Foreign countries – normal tax	**2**	3
	Contract holder tax		
	Tax on contract holder funds – current year	**72**	437
	Tax on contract holder funds – prior year	**–**	(172)
	Tax attributable to cell captive owners	**45**	65
		2 431	2 458

Tax rate reconciliation	2015 %	Restated 2014 %
Tax calculated at standard rate of South African tax on earnings	**28.0**	28.0
Prior year adjustments	**0.1**	(0.6)
Taxation on contract holder funds	**8.3**	14.6
Foreign tax differential	**(1.7)**	(2.0)
Capital gains tax	**0.7**	(0.8)
Non-taxable income	**(8.1)**	(5.8)
Non-deductible expenses	**6.1**	1.3
Tax losses for which no deferred tax asset was recognised	**2.2**	0.6
Cell captive tax – to be recovered from cell owners	**11.2**	8.9
Other	**(1.5)**	(1.5)
Effective rate	**45.3**	42.7

2014 reclassification
R381 million has been reclassified from current year tax on contract holder funds to tax attributable to cell captive owners to better reflect the nature thereof.

		2015 Rm	2014 Rm
26	**NET INSURANCE PREMIUMS**		
	Premiums received	35 297	28 118
	Long-term insurance contracts	23 534	21 956
	Health premiums	1 201	755
	Investment contracts with DPF	3 432	2 577
	Short-term insurance	7 130	2 830
	Premiums received ceded to reinsurers	(7 901)	(4 980)
		27 396	23 138

Included in the above is R8 226 million (2014: R5 046 million) premiums and R5 902 million (2014: R3 286 million) reinsurance relating to cell captives.

		2015 Rm	2014 Rm
27	**FEE INCOME**		
	Contract administration	2 225	1 772
	Investment contract administration	2 153	1 691
	Release of deferred front-end fees	72	81
	Trust and fiduciary services	1 842	2 014
	Asset management	589	615
	Asset administration	516	677
	Retirement fund administration	737	722
	Health administration	2 053	1 978
	Other income	1 235	803
	Administration fees received	170	41
	Multiply fee income	288	258
	Cell captive fee income	346	95
	Cell captive deferred front-end fees	(8)	–
	Other	439	409
		7 355	6 567

Contract revenue recognised for the year amounts to R58 million (2014: R56 million) and is included in asset administration fees above.

		2015 Rm	2014 Rm
28	**INVESTMENT INCOME**		
	Designated at fair value through income		
	Dividend income – listed	2 551	2 219
	Dividend income – unlisted	642	899
	Interest income	11 410	10 079
	Designated at fair value through income	10 116	8 805
	Available-for-sale	29	39
	Held-to-maturity	9	5
	Loans and receivables	234	228
	Cash and cash equivalents	1 022	1 002
	Rental income	939	844
	Investment properties	930	828
	Owner-occupied properties	9	16
	Other income	17	2
		15 559	14 043

		2015 Rm	2014 Rm
29	**NET REALISED AND FAIR VALUE GAINS**		
	Financial assets	15 839	43 402
	Designated at fair value through income	16 422	43 526
	Derivative financial instruments – losses	(615)	(165)
	Net realised and unrealised foreign exchange differences on financial instruments not designated at fair value through income	32	41
	Financial liabilities		
	Designated at fair value through income	4	(20)
	Investment property	383	541
	Valuation gains	439	572
	Change in accelerated rental income	(56)	(31)
	Other investments	22	(17)
		16 248	43 906
30	**NET INSURANCE BENEFITS AND CLAIMS**		
	Long-term insurance contracts	19 528	17 943
	Death and disability claims	8 136	7 094
	Maturity claims	4 802	5 148
	Annuities	3 236	2 553
	Surrenders	2 935	2 769
	Terminations and withdrawal benefits	419	379
	Health and capitation benefits incurred	996	538
	Short-term insurance benefits incurred	4 022	1 360
	Short-term insurance change in provision for outstanding claims	40	289
	Investment contracts with DPF	4 050	4 197
	Death and disability claims	36	50
	Maturity claims	701	866
	Annuities	157	58
	Surrenders	331	401
	Terminations and withdrawal benefits	2 825	2 822
		28 636	24 327
	Amounts recovered from reinsurers	(4 026)	(2 006)
		24 610	22 321

Included in the above is R4 474 million (2014: R1 897 million) claims and R2 465 million (2014: R815 million) reinsurance relating to cell captives.

		2015 Rm	2014 Rm
31	**DEPRECIATION, AMORTISATION AND IMPAIRMENT EXPENSES**		
	Depreciation (refer to notes 2 and 3)	250	229
	Owner-occupied properties	61	44
	Equipment	189	185
	Amortisation (refer to note 1)	1 044	889
	Value of in-force business acquired	330	321
	Customer relationships	465	393
	Brands	62	57
	Broker network	49	34
	Computer software	138	84
	Impairment of intangible assets (refer to note 1)	19	24
	Customer relationships	2	–
	Computer software	17	24
	Impairment of property, plant and equipment (refer to note 3)	–	1
	Equipment	–	1
	Impairment of financial assets	13	16
	Loans and receivables	13	16
		1 326	1 159

		2015 Rm	2014 Rm
32	**EMPLOYEE BENEFIT EXPENSES**		
	Salaries	4 704	3 919
	Contributions to medical aid funds	201	192
	Defined benefit retirement fund	1	3
	Defined contribution retirement fund	274	239
	Post-retirement medical benefits	13	2
	Retirement fund assets (refer to note 21.1)	(42)	66
	Share-based payment expenses – Cash-settled arrangements (refer to note 21.2(b))	456	391
	Current service costs – International subsidiaries' share schemes	59	8
	Training costs	159	136
	Other	97	176
		5 922	5 132
	For detail of directors' and prescribed officers' emoluments, refer to pages 65 to 67 of the corporate governance report.		
33	**SALES REMUNERATION**		
	Commission incurred for the acquisition of insurance contracts	3 732	2 890
	Commission incurred for the acquisition of investment contracts with DPF	880	713
	Amortisation of deferred acquisition costs	391	267
	Movement in provision for impairment of amounts due from agents, brokers and intermediaries	68	29
		5 071	3 899
34	**OTHER EXPENSES**		
	Administration fees paid – binder and outsourcing fees	73	47
	Asset management fees	1 739	1 423
	Auditors' remuneration	84	73
	Audit fees	75	66
	Fees for other services	9	7
	Bad debts written off	10	10
	Bank charges	69	64
	Consulting fees	399	423
	Direct property operating expenses on investment property	288	273
	Information technology expenses	476	433
	Marketing costs	465	351
	Multiply benefit payments	239	207
	Office costs	891	732
	Operating lease charges	97	97
	Other indirect taxes	228	220
	Policy services	46	46
	Travel expenses	199	171
	Other expenses	503	465
		5 806	5 035
35	**FINANCE COSTS**		
	Interest expense on financial liabilities		
	Redeemable preference shares	108	46
	Subordinated redeemable debt	22	46
	Unsecured subordinated call notes	249	102
	Cost of carry positions	261	156
	Other	152	132
		792	482

		Basic earnings		Diluted earnings	
		2015	2014	2015	2014
36	**GROUP EARNINGS PER ORDINARY SHARE**				
	Attributable to owners of the parent				
	Earnings (cents per share)[1, 2]	**183.5**	205.5	**180.5**	202.4
	Headline earnings (cents per share)	**184.5**	207.1	**181.4**	204.0
	Core headline earnings (cents per share)	**244.0**	230.3	**239.2**	225.7

Reconciliation of headline earnings attributable to owners of the parent	2015 Rm	2014 Rm	2015 Rm	2014 Rm
Earnings – equity holders of group	**2 857**	3 197	**2 857**	3 197
Finance costs – preference shares			**44**	45
Dilutory effect of subsidiaries[3]			**(31)**	(22)
Diluted earnings			**2 870**	3 220
Intangible assets and other impairments	**19**	25	**19**	25
Tax on intangible assets and other impairments	**(4)**	–	**(4)**	–
Headline earnings[4]	**2 872**	3 222	**2 885**	3 245
Net realised and fair value gains on excess	**6**	(544)	**6**	(544)
Basis and other changes and investment variances	**148**	160	**148**	160
Amortisation of intangible assets relating to business combinations	**720**	575	**720**	575
Non-recurring items[5]	**53**	171	**53**	171
Investment income on treasury shares held on behalf of contract holders			**24**	14
Core headline earnings[6]	**3 799**	3 584	**3 836**	3 621
Weighted average number of ordinary shares in issue (million)	**1 557**	1 556	**1 557**	1 556
Adjustments for				
Assumed conversion of 32 million (2014: 34 million) preference shares (weighted)			**33**	35
Diluted weighted average – earnings and headline earnings (million)[7]			**1 590**	1 591
Treasury shares held on behalf of contract holders			**14**	14
Impact of weighting			**–**	(1)
Diluted weighted average – core headline earnings (million)[7]			**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**
Diluted earnings per share are 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 **Dilutory effect of subsidiaries**
Metropolitan Health is consolidated at 100% and the MMI Holdings Namibian group, Metropolitan Kenya and Cannon are consolidated at 96% in the results. For purposes of diluted earnings, diluted non-controlling interests and investment returns are reinstated.

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

5 **Non-recurring items**
Non-recurring items include one-off costs relating to the restructuring of the group. For June 2014 it also includes a one-off enhancement of benefits relating to the outsourcing of the Metropolitan Staff Pension Fund liabilities, amounting to R107 million. The previously unrecognised net surplus asset exceeding the employer surplus account was used to fund the enhancement and released in other comprehensive income, resulting in an accounting mismatch. The net asset value of the group has therefore not been impacted.

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

7 **Diluted weighted average number of shares**
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.

		2015 Rm	Restated 2014 Rm
37	**CASH FLOW FROM OPERATING ACTIVITIES**		
37.1	**Cash utilised in operations**		
	Profit before tax	**5 408**	5 758
	Adjusted for		
	Dividends received	**(3 193)**	(3 118)
	Interest received	**(11 410)**	(10 079)
	Finance costs	**792**	482
	Share of profits of associates	**(4)**	(2)
	Net realised and fair value gains	**(15 890)**	(43 922)
	Net movement in policy liabilities	**15 377**	41 305
	Depreciation and amortisation expenses	**1 294**	1 118
	Impairment charges	**102**	74
	Deferred acquisition costs movement	**391**	267
	Share-based payments and other employee benefit expenses	**528**	418
	Staff and management bonus liabilities	**458**	160
	Leave pay liability	**18**	28
	Provisions	**48**	297
	Reinsurance assets and liabilities	**153**	(40)
	Employee benefit assets and obligations	**(43)**	(385)
	Deferred revenue liability movements	**(65)**	(81)
	Accelerated rental income	**(56)**	(31)
	Other non-cash items	**(5)**	23
	Changes in operating assets and liabilities (excluding effect of acquisitions and exchange rate differences on consolidation)		
	Net insurance and investment liabilities	**2 890**	1 874
	Intangible assets related to insurance and investment contracts	**(436)**	(330)
	Investment properties	**(149)**	(936)
	Properties under development	**(78)**	(154)
	Assets designated at fair value through income	**(6 361)**	3 875
	Transaction costs on acquisition of subsidiaries and associates	**(9)**	–
	Loans and receivables	**(2 100)**	1 099
	Insurance and other receivables	**(226)**	(273)
	Employee benefit assets and obligations	**(501)**	(405)
	Other operating liabilities	**3 462**	(1 599)
	Cash utilised in operations	**(9 605)**	(4 577)

2014 reclassification

Changes in insurance and investment liabilities as per the income statement (2014: R41 305 million) and fair value gains on investments in associates designated at fair value (2014: R6 233 million) were previously classified and disclosed as changes in operating assets and liabilities in the note to the statement of cash flows. On reassessment of the nature of the changes, these have been reclassified and are now disclosed as non-cash flow items.

		2015 Rm	2014 Rm
37	**CASH FLOW FROM OPERATING ACTIVITIES** *continued*		
37.2	**Income tax paid**		
	Due at beginning	**(3 943)**	(3 952)
	Charged to income statement	**(2 431)**	(2 458)
	Charged directly to other comprehensive income	**(36)**	(12)
	Other	**(6)**	(61)
	Business combinations	**(201)**	(400)
	Exchange differences	**–**	1
	Due at end	**3 865**	3 943
		(2 752)	(2 939)
37.3	**Interest paid**		
	Redeemable preference shares	**(108)**	(46)
	Subordinated redeemable debt	**(22)**	(46)
	Unsecured subordinated call notes	**(248)**	(102)
	Cost of carry positions	**(261)**	(156)
	Other	**(102)**	(129)
		(741)	(479)

38 BUSINESS COMBINATIONS

Business combinations for the year ended 30 June 2015

Cannon

On 2 October 2014, the group acquired an accounting ownership of 71% (legal ownership of 66%) of Cannon, a composite insurer, for R308 million. The minority shareholders of Cannon also acquired a minority stake in Metropolitan Life Kenya. This acquisition allowed for geographical as well as product diversification within MMI's international operations. The purchase price allocation has been finalised and the transaction resulted in R103 million goodwill being recognised attributable to certain anticipated operating synergies.

CareCross

On 19 November 2014, the group acquired 100% in CareCross, a health administrator, for R300 million in cash. It includes a majority share in Occupational Care South Africa (OCSA). This acquisition allowed for revenue diversification in the Metropolitan Health segment. The transaction did not result in any goodwill being recognised.

Other

During the year the group also made a few smaller acquisitions.

	Total Rm	Cannon Rm	CareCross Rm	Other Rm
38 BUSINESS COMBINATIONS *continued*				
Purchase price allocation:				
Fair value of net assets:				
Intangible assets	721	174	392	155
Customer relationships	612	173	367	72
Brand	25	–	25	–
Computer software	84	1	–	83
Tangible assets	149	138	7	4
Owner-occupied properties	19	19	–	–
Property and equipment	14	3	7	4
Investment properties	116	116	–	–
Financial instrument assets	427	228	13	186
Securities designated at fair value through income	87	84	–	3
Available-for-sale	42	34	–	8
Held-to-maturity	80	80	–	–
Loans and receivables	218	30	13	175
Reinsurance contract assets	6	6	–	–
Insurance and other receivables	36	36	–	–
Other assets	39	19	20	–
Deferred income tax assets	1	–	1	–
Current income tax assets	38	19	19	–
Cash and cash equivalents	121	16	63	42
Insurance contract liabilities	(195)	(177)	(18)	–
Long-term insurance contracts	(20)	(20)	–	–
Capitation contracts	(18)	–	(18)	–
Short-term insurance contracts	(157)	(157)	–	–
Financial instrument liabilities	(128)	(38)	–	(90)
Investment contract liabilities	(38)	(38)	–	–
Other financial instrument liabilities	(90)	–	–	(90)
Other liabilities	(395)	(98)	(170)	(127)
Deferred income tax liabilities	(214)	(72)	(110)	(32)
Employee benefit obligations	(16)	(9)	(4)	(3)
Other payables	(140)	(17)	(31)	(92)
Current income tax liabilities	(25)	–	(25)	–
Net identifiable assets acquired	781	304	307	170
Derecognise investment in associate	(39)	–	–	(39)
Non-controlling interests (fair value method)	(95)	(88)	(7)	–
Goodwill	234	103	–	131
Contingent liability payments	(4)	–	–	(4)
Derecognition of Metropolitan Life Kenya shares	(11)	(11)	–	–
Purchase consideration in cash	866	308	300	258
Cash and cash equivalents in subsidiary	121	16	63	42
Less: purchase consideration in cash	(866)	(308)	(300)	(258)
Net cash and cash equivalents paid through business combinations	(745)	(292)	(237)	(216)

The goodwill relating to the above transactions is not deductible for tax purposes. The above transactions contributed net income of R470 million and losses of R30 million to the group results for the current year.

38 BUSINESS COMBINATIONS *continued*

Business combinations for the year ended 30 June 2014

Guardrisk Group

On 3 March 2014, MMI Holdings Ltd acquired 100% of the Guardrisk Group (Guardrisk) for R1.6 billion in cash. This acquisition reflects MMI's strategic intent to diversify its business in South Africa and selected international markets, with a primary focus on Africa. The transaction resulted in R567 million goodwill being recognised attributable to certain anticipated operating synergies. Refer to note 46 for more detail.

Providence Group

On 11 November 2013, the group acquired 100% in the Providence Group (Providence), a health administrator, for R51 million in cash with an additional R57 million contingent consideration. The transaction resulted in R19 million goodwill being recognised attributable to certain anticipated operating synergies.

Other

During the prior year the group also had a few smaller acquisitions, relating mostly to life books being acquired.

	Total Rm	Guardrisk Rm	Providence Rm	Other Rm
Purchase price allocation:				
Fair value of net assets:				
Intangible assets	1 095	940	112	43
Value of in-force business	138	128	–	10
Customer relationships	447	307	112	28
Brand	79	79	–	–
Broker network	355	355	–	–
Computer software	76	71	–	5
Tangible assets				
Property and equipment	5	1	2	2
Financial instrument assets	10 837	10 630	11	196
Securities designated at fair value through income	10 405	10 405	–	–
Available-for-sale	118	–	–	118
Held-to-maturity	24	–	–	24
Loans and receivables	290	225	11	54
Reinsurance contract assets	762	762	–	–
Insurance and other receivables	686	686	–	–
Other assets				
Deferred income tax assets	176	176	–	–
Cash and cash equivalents	2 330	2 284	4	42
Insurance contract liabilities	(6 061)	(5 836)	–	(225)
Long-term insurance contracts	(908)	(683)	–	(225)
Short-term insurance contracts	(5 153)	(5 153)	–	–
Financial instrument liabilities	(7 305)	(7 298)	–	(7)
Investment contract liabilities	(7 298)	(7 298)	–	–
Other financial instrument liabilities	(7)	–	–	(7)
Other liabilities	(1 346)	(1 305)	(40)	(1)
Deferred income tax liabilities	(308)	(283)	(31)	6
Employee benefit obligations	(22)	(22)	–	–
Other payables	(748)	(733)	(8)	(7)
Current income tax liabilities	(268)	(267)	(1)	–
Net identifiable assets acquired	1 179	1 040	89	50
Non-controlling interests (fair value method)	(5)	–	–	(5)
Goodwill	586	567	19	–
Contingent liability payments	(57)	–	(57)	–
Purchase consideration in cash	1 703	1 607	51	45
Cash and cash equivalents in subsidiary	2 330	2 284	4	42
Less: purchase consideration in cash	(1 703)	(1 607)	(51)	(45)
Net cash and cash equivalents paid through business combinations	627	677	(47)	(3)

The goodwill relating to the above transactions is not deductible for tax purposes. The above transactions contributed net income of R2 255 million and earnings of R83 million to the group results for the prior year.

		2015 Rm	2014 Rm
39	**CAPITAL AND LEASE COMMITMENTS**		
	Capital commitments		
	Authorised but not contracted	**208**	388
	Authorised and contracted	**–**	364
		208	752
	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. Also refer to note 42 for significant events after the reporting period.		
	Lease commitments		
	The minimum future lease payments payable under non-cancellable operating leases on property and equipment:		
	Less than 1 year	**21**	47
	Between 1 and 5 years	**51**	32
	More than 5 years	**31**	–
		103	79
	The minimum future lease payments receivable under non-cancellable operating leases on investment properties:		
	Less than 1 year	**469**	373
	Between 1 and 5 years	**821**	1 194
	More than 5 years	**423**	413
		1 713	1 980

40 CONTINGENT LIABILITIES

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

41 RELATED PARTY TRANSACTIONS

41.1 Major shareholders and group companies

MMI Holdings Ltd is the ultimate holding company in the group. By virtue of its shareholding of 24.5% in MMI Holdings Ltd, Rand Merchant Insurance Holdings Ltd has significant influence over the group. The remaining shares are widely held by public and non-public shareholders; refer to the shareholder profile on page 261.

Kagiso Tiso Holdings (Pty) Ltd (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.

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.

41 RELATED PARTY TRANSACTIONS *continued*

41.2 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 on pages 57 to 59 and pages 65 to 68 respectively.

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

	2015 Rm	2014 Rm
Salaries and other short-term employee benefits	58	38
Post-employment benefits	1	1
Share-based payments	15	35
Directors' fees	16	16
	90	90

The group executive directors are members of the staff pension schemes, the details of which are in note 21.

The executive directors participate in the group's long-term retention schemes, the details of which are in note 21.

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

	2015	
	Insurance Rm	Investment Rm
Fund value (at 30 June 2015)	N/A	205
Aggregate life and disability cover (at 30 June 2015)	164	N/A
Deposits/premiums (for 12 months to June 2015)	4	1
Withdrawals/claims (for 12 months to June 2015)	–	(8)

	2014	
	Insurance Rm	Investment Rm
Fund value (at 30 June 2014)	N/A	196
Aggregate life and disability cover (at 30 June 2014)	118	N/A
Deposits/premiums (for 12 months to June 2014)	4	33
Withdrawals/claims (for 12 months to June 2014)	–	(63)

In aggregate, the group earned fees and charges totalling R2 million (2014: R2 million) on the insurance and investment products set out above.

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

The group's broad-based black economic empowerment partner, Kagiso Tiso Holdings (Pty) Ltd (KTH), has an interest of 7.1% (2014: 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 19.1.
- 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 are convertible into ordinary shares on a one-for-one basis and can only be converted as and when the preference shares are redeemed, also on a one-for-one basis. KTH holds a 17.6% interest in Metropolitan Health Corporate (Pty) Ltd through this transaction.
- KTH has a 21.2% holding in Eris Property Group (Pty) Ltd, a property management company.
- KTH has a 20% holding in Metropolitan Retirement Administrators (Pty) Ltd (MRA). The 20% interest was sold to MMI Holdings Ltd effective 1 July 2015. MRA specialises in the provision of administration services to large retirement funds through the effective use of technology and end-to-end automation.
- KTH has a 51% holding in C Shell 448 (Pty) Ltd – refer to note 5.

41 RELATED PARTY TRANSACTIONS *continued*

41.4 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.

41.5 Transactions with associates

Transactions with associates relate to loans advanced and preference share investments (refer to note 7).

41.6 Transactions with significant shareholders

MMI Holdings Ltd dividend declarations:

R333 million of the ordinary dividends declared by MMI Holdings Ltd in September 2014 (R298 million of the ordinary dividends declared in September 2013) and R248 million of the ordinary dividends declared in March 2015 (R223 million of the ordinary dividends declared in March 2014) were attributable to RMI Holdings Ltd. In September 2014, R196 million of the special dividends declared by MMI Holdings Ltd were attributable to RMI Holdings Ltd. Another R362 million will be provided for during the 2016 financial year (as part of the dividends declared in September 2015).

41.7 Post-employment benefit plans

Refer to note 21 for details of the group's employee benefit plans.

42 EVENTS AFTER THE REPORTING PERIOD

Refer to page 96 of the directors' report.

43 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: Life 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 the 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. Insured events are random and the actual number and amount of claims and benefits will vary from year to year.

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, eg 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.

43 FINANCIAL RISK MANAGEMENT *continued*

43.1 Classes of assets and liabilities

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

	2015 Rm	Restated 2014 Rm
Assets		
Financial assets carried at fair value		
Designated at fair value through income		
Equity securities	**104 748**	100 790
Local listed	**79 843**	78 261
Foreign listed	**24 615**	21 672
Unlisted	**290**	857
Debt securities	**104 176**	88 788
Stock and loans to government and other public bodies		
Local listed	**39 402**	30 514
Foreign listed	**1 932**	1 706
Unlisted	**2 921**	3 232
Other debt instruments		
Local listed	**25 950**	23 684
Foreign listed	**564**	491
Unlisted	**33 407**	29 161
Funds on deposit and other money market instruments	**24 473**	24 941
Unit-linked investments *(refer to Annexure B for further detail)*	**132 330**	120 477
Collective investment schemes		
Local unlisted or listed quoted	**78 579**	70 724
Foreign unlisted or listed quoted	**30 027**	25 942
Foreign unlisted unquoted	**903**	1 225
Other unit-linked investments		
Local unlisted or listed quoted	**9 296**	8 941
Local unlisted unquoted	**12 241**	12 333
Foreign unlisted unquoted	**1 279**	1 296
Foreign unlisted or listed quoted	**5**	16
Investments in associates designated at fair value through income *(refer to Annexure B for further detail)*	**12 362**	11 900
Derivative financial instruments	**2 033**	2 362
Held for trading	**2 027**	2 347
Held for hedging purposes	**6**	15
Available-for-sale	**208**	129
Equity securities		
Local listed	**12**	3
Foreign listed	**147**	87
Unlisted	**36**	4
Debt securities – foreign listed	**–**	31
Local unlisted quoted collective investment schemes *(refer to Annexure B for further detail)*	**13**	4
Financial assets carried at amortised cost		
Held-to-maturity	**73**	100
Funds on deposit and other money market instruments	**42**	85
Debt securities	**31**	15

	2015 Rm	Restated 2014 Rm
43 FINANCIAL RISK MANAGEMENT *continued*		
43.1 Classes of assets and liabilities *continued*		
Loans and receivables	7 652	5 586
Accounts receivable	2 790	2 444
Unsettled trades	2 503	772
Loans	2 359	2 370
Other receivables		
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	3 859	3 669
Cash and cash equivalents	26 174	28 875
Other assets carried at fair value		
Owner-occupied properties	3 030	1 714
Investment properties	7 212	7 675
Non-current assets held for sale	–	17
Other assets not carried at fair value	18 511	17 485
Total assets	446 841	414 508

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

	2015 Rm	Restated 2014 Rm
Liabilities		
Carried at fair value		
Investment contracts		
Designated at fair value through income	220 356	201 651
Designated at fair value through income	39 720	30 801
Collective investment scheme liabilities	25 869	22 313
Subordinated call notes	3 320	2 573
Carry positions	9 370	4 851
Preference shares	1 016	1 001
Other	145	63
Derivative financial instruments	2 111	1 853
Held for trading	2 111	1 853
Carried at amortised cost		
Financial liabilities	1 092	1 463
Cumulative redeemable preference shares	293	313
Subordinated redeemable debt	–	511
Finance lease liabilities	2	2
Other	797	637
Other payables	11 835	8 548
Payables arising from insurance contracts and investment contracts with DPF (excluding premiums received in advance)	2 465	2 396
Payables arising from investment contracts	1 451	1 025
Collective investment scheme income distribution payable	636	218
Unsettled trades	3 187	992
Commission creditors	573	550
Other payables at amortised cost	3 523	3 367
Insurance contract liabilities	111 329	111 543
Investment contracts with DPF	26 134	25 405
Other non-financial liabilities	9 216	8 030
Total liabilities	421 793	389 294

44 CAPITAL MANAGEMENT

44.1 Capital management objectives

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

- to optimise the group's return on embedded value;
- 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 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 optimise the level of capital, the investment of the capital and the future use of this capital to the benefit of all stakeholders; and
- to ensure that there is sufficient capital available for profitable business growth.

44.2 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.

44.3 Overview of capital management developments

44.3.1 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.

44.3.2 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 depend on the inherent risk profile of the company.

The capital projection model is regularly revised to ensure appropriateness. Risks that are modelled explicitly include market risk, credit risk, insurance risk (including pandemic disease risk) and operational risk. The amounts of capital held by the group's operating subsidiaries are regularly compared to their economic capital requirement and the intention is to manage the actual capital levels to be in line with the economic capital requirements.

For other life-insurance companies in the group, a multiple of the statutory capital adequacy requirement (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.

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.

44 CAPITAL MANAGEMENT *continued*

44.3 Overview of capital management developments *continued*

44.3.3 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 the Actuarial Society of South Africa. It is a risk-based capital measure that is intended to provide a reasonable level of confidence that insurers will be able to meet their existing liabilities under adverse circumstances. 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
- risk that long-term insurance and financial assumptions are not realised.

44.3.4 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 with 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 2016. The group participated in the FSB's light parallel run which successfully concluded at the end of 2014. As part of the comprehensive parallel run which started in January 2015, the group has successfully submitted all regulatory reports required, implemented the risk and governance requirements as set out in the FSB Board Notice that became effective 1 April 2015, and are on track with our developments related to the Mock Own Risk and Solvency Assessment ("ORSA") that will be submitted to the FSB during the second half of 2015.

During the 2015 calendar year, the group is focussing on embedding the SAM requirements in the day-to-day operations and will continue to monitor developments in the legislative processes related to SAM. Ultimately SAM will achieve better alignment of stakeholder interests, including enhanced protection of policyholder benefits which is in line with the group's financial wellness strategy and client-centric operating model.

For Guardrisk, the SAM standard formulae proposed might not result in the most appropriate capital calculation and requirement for the *cell captive* environment. Guardrisk Insurance (the short-term insurer) therefore continues with the process of developing an internal model that will appropriately calculate the risk-based capital required in the *cell captive* environment. In this regard, Guardrisk Insurance is participating in the FSB's Internal Model Application Process. During discussions with the FSB it was unclear whether Guardrisk will have final approval for the internal model by the time SAM is implemented.

The group and Guardrisk are currently in discussions with the FSB regarding transitional arrangements that could provide some relief from the standard formulae requirements. At the same time, the Guardrisk team is working on some of the proposals that were presented to the Guardrisk board of directors and the potential changes in the business that will further reduce the required capital based on the SAM standard formula. Approval of the model will allow the business to meet capital requirements that are efficient for the *cell captive* model.

44 CAPITAL MANAGEMENT *continued*

44.3 Overview of capital management developments *continued*

44.3.5 Issuance of subordinated debt

On 1 December 2014, MMIGL issued an amount of R750 million of subordinated, unsecured callable notes in the market. The notes issued were floating rate with a legal maturity of 10.5 years (callable after 5.5 years) and were issued at a spread of 2.3% over the three-month JIBAR interest rate.

On 15 December 2014, the R500 million subordinated notes issued by Metropolitan Life Ltd (now MMIGL) in 2006 were redeemed.

The table below shows a summary of the MMIGL subordinated, unsecured callable notes in issue at 30 June 2015:

MMI Group Ltd subordinated debt Instrument code	Amount issued (Rm)	Coupon rate	Tenor (years)	Date issued	Coupon type
MGL01	1 000	8.50%	9.5	Mar-06	Fixed
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

The credit spread at which the notes were issued in December 2014 was higher compared to the notes issued in March 2014 due to the African Bank Investments Ltd (ABIL) credit event that occurred in August 2014, which resulted in a general increase in spreads across the market.

On 12 August 2015, MMIGL issued a further amount of R1.25 billion of subordinated, unsecured callable notes in the market. Two notes were issued:

- A 12-year fixed rate note (callable after seven years) of R960 million was issued at a spread of 2.73% above the risk-free rate (the R2023 government bond); and
- A 15-year fixed rate note (callable after 10 years) of R270 million was issued at a spread of 3.05% above the risk-free rate (the R186 government bond).

On 15 September 2015, the R1 billion subordinated notes issued by MMIGL in 2006 will be redeemed.

44.4 Sources of capital utilised

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

MMI Group Ltd Regulatory capital	2015 Rm	2015 %	2014 Rm	2014 %
Tier 1	12 714	79	12 942	81
– core tier 1 (ie equity capital)	12 214	76	12 442	78
– non-redeemable preference shares	500	3	500	3
Tier 2: subordinated qualifying debt	3 320	21	3 075	19
Qualifying statutory capital	16 034	100	16 017	100

44.5 Regulatory capital position

At 30 June 2015, MMIGL's CAR was covered 2.8 times (2014: 2.9 times) by the excess of assets over liabilities (on the prescribed statutory valuation basis).

MMI Group Ltd Regulatory capital position	2015 Rm	2014 Rm
Statutory excess over liabilities	16 034	16 017
CAR	5 810	5 545
CAR cover (times)	2.8	2.9

44 CAPITAL MANAGEMENT *continued*

44.5 Regulatory capital position *continued*

MMIGL's regulatory capital position reduced marginally over the 12 months ended 30 June 2015, mainly as a result of an increase in the CAR, offset to some extent by an increase in the statutory surplus.

The increase in the statutory surplus was due to the contribution from the operating profit and the increase in the subordinated debt in issuance of R250 million. This increase was partly offset by the funding of certain strategic acquisitions and the payment of a special dividend in October 2014.

The increase in CAR is mainly attributed to a combination of the following (offsetting) factors:

- An increase in credit risk due to various rating downgrades;
- A decrease in investment risk due to improved matching on structured products, and a more conservative investment strategy on some portfolios; and
- An increase in insurance risk, due to an increase in the size of the risk book.

44.6 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 that the SAM specifications have to a large extent been finalised, 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, we are comfortable that the level of the capital buffer, after the payment of the ordinary final dividend, should be sufficient to meet future strategic requirements and the potential impact of SAM.

44.7 Credit ratings

On 12 March 2015, Fitch affirmed the credit ratings of MMIGL, MMI Holdings Ltd and Guardrisk. The National Insurer Financial Strength (IFS) rating of MMIGL, Guardrisk Insurance and Guardrisk Life was affirmed at "AA+(zaf)", while MMI Holdings Ltd's National Long-term rating was affirmed at "AA-(zaf)". The Outlooks for these companies are Stable. Fitch simultaneously affirmed the credit rating of MMIGL's subordinated notes at "A+(zaf)". Fitch also affirmed Mauritius-based Guardrisk International Ltd PCC's IFS rating at "BBB+" with a Negative Outlook.

45 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.

2015	Insurance Rm	Investment with DPF Rm	Investment Rm	Total Rm
Contracts with DPF	40 994	25 815	346	67 155
Individual contracts with DPF	35 436	7 061	–	42 497
Smoothed bonus business	26 143	7 058	–	33 201
Conventional with-profit business	9 293	3	–	9 296
Group contracts with DPF	5 558	18 754	346	24 658
Smoothed bonus business	–	16 650	–	16 650
Smoothed bonus business – fully vesting	–	964	–	964
With-profit annuity business	5 558	1 140	346	7 044
Market-related business	20 578	166	201 364	222 108
Individual market-related business	19 294	166	130 812	150 272
Group market-related business	1 284	–	70 552	71 836
Other business	41 968	92	8 777	50 837
Non-profit annuity business	32 385	–	2 480	34 865
Guaranteed endowments	1 065	–	6 268	7 333
Structured products	–	–	29	29
Other non-profit business	8 518	92	–	8 610
Subtotal	103 540	26 073	210 487	340 100
Liabilities in cell captive and short-term business	7 789	61	9 869	17 719
Total contract holder liabilities	111 329	26 134	220 356	357 819

45 INSURANCE AND INVESTMENT BUSINESS *continued*

2014	Insurance Rm	Investment with DPF Rm	Investment Rm	Total Rm
Contracts with DPF	42 477	25 153	–	67 630
Individual contracts with DPF	37 758	7 471	–	45 229
Smoothed bonus business	28 297	7 468	–	35 765
Conventional with-profit business	9 461	3	–	9 464
Group contracts with DPF	4 719	17 682	–	22 401
Smoothed bonus business	–	16 648	–	16 648
Smoothed bonus business – fully vesting	–	990	–	990
With-profit annuity business	4 719	44	–	4 763
Market-related business	23 162	161	184 099	207 422
Individual market-related business	21 929	161	120 342	142 432
Group market-related business	1 233	–	63 757	64 990
Other business	38 880	32	8 688	47 600
Non-profit annuity business	30 927	–	2 501	33 428
Guaranteed endowments	1 275	–	5 983	7 258
Structured products	–	–	40	40
Other non-profit business	6 678	32	164	6 874
Subtotal	104 519	25 346	192 787	322 652
Liabilities in cell captive and short-term business	7 024	59	8 864	15 947
Total contract holder liabilities	111 543	25 405	201 651	338 599

45.1 Classes of long-term insurance and investment business

The different classes of business are discussed below:

Contracts with discretionary participation features (DPF)

- Bonuses are declared taking into account a number of factors, including actual investment returns, previous bonus rates declared and contract holders' reasonable expectations. Bonuses are generally designated as vesting bonuses, which cannot be removed or reduced on death or maturity, or non-vesting bonuses, which can be removed or reduced. Declared bonuses are usually a combination of both vesting and non-vesting bonuses, although for certain classes of business declared bonuses are all vesting.
- All long-term insurers that write discretionary participation business are required by the 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, bonus stabilisation accounts (BSAs) are held equal to the difference between the fund accounts, or the discounted value of projected future benefit payments for with-profit annuity business, and the market value of the underlying assets. A positive BSA is the undistributed surplus in the asset portfolio that is earmarked for future distribution to contract holders. 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.

45 INSURANCE AND INVESTMENT BUSINESS *continued*

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

Contracts with discretionary participation features (DPF) *continued*

- 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.
- 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, it will have a credit rating that corresponds to senior bank debt, equivalent to a long-term national scale rating of A+.

Financial instruments

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

45 INSURANCE AND INVESTMENT BUSINESS *continued*

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

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 17.
- Currently certain structures are in place to partially match movements in this liability. However, it is not possible to fully match these guarantees due to the long-term nature of the guarantees provided and the lack of corresponding financial instruments in the market with similar durations.

45.2 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 the 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 of the expected outcome will be. Similarly, diversification of the portfolio with respect to risk factors reduces insurance risk.

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 risk is mitigated to an extent 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 on the following pages.

45 INSURANCE AND INVESTMENT BUSINESS *continued*

45.2 Long-term insurance risk *continued*

45.2.1 Mortality, longevity, morbidity and medical 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 financially 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 on 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 these risks:
  - 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 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.
  - 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 withdrawal, which means policyholders are less likely to withdraw 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.
- How risks are managed:
  - Risk premiums on most smoothed bonus and market-related contracts may be adjusted within the terms and conditions of the contracts. Group practice is to adjust these charges so that on average they reflect actual mortality experience, hence reducing 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 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.
  - All 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 each product. Where HIV tests are not required, this is fully reflected in the pricing and experience is closely monitored.
  - Underwriting is done to identify abnormal 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 sub-standard 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.

45 INSURANCE AND INVESTMENT BUSINESS *continued*

45.2 Long-term insurance risk *continued*

45.2.1 Mortality, longevity, morbidity and medical risks *continued*

Metropolitan Retail has a number of different reinsurance structures in place, depending on the type of product, the size of the risks involved and the experience in this type of business. The two structures mostly used are surplus retention where, generally, amounts of up to R1.5 million are retained with the full amount above that reinsured, and risk premium on a constant retention basis up to a maximum retention limit of R400 000. Reinsurance is on fully underwritten and limited underwriting products excluding 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 R700 million (2014: R650 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.

Sum insured per benefit (Rands)	2015 Number of benefits	2015 Amount (gross) Rm	2015 Amount (net) Rm	2014 Number of benefits	2014 Amount (gross) Rm	2014 Amount (net) Rm
0 – 20 000	**9 862 911**	**54 569**	**21 979**	7 257 939	50 174	26 447
20 001 – 50 000	**1 667 338**	**55 532**	**27 451**	1 385 706	47 596	31 080
50 001 – 100 000	**729 220**	**53 561**	**16 238**	429 757	34 150	13 261
100 001 – 200 000	**315 605**	**50 858**	**21 837**	415 184	85 112	45 297
200 001 – 500 000	**265 490**	**91 878**	**55 788**	166 546	57 463	32 599
500 001 – 1 000 000	**239 877**	**133 638**	**94 769**	238 144	132 284	94 976
> 1 000 000	**725 528**	**801 911**	**455 727**	655 613	744 799	427 702
Subtotal	**13 805 969**	**1 241 947**	**693 789**	10 548 889	1 151 578	671 362
Cell captive business	**2 634 998**	**213 159**	**51 084**	2 583 150	189 008	54 861
Total	**16 440 967**	**1 455 106**	**744 873**	13 132 039	1 340 586	726 223

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 some children and spouse's annuities)
  – disability insurance (lump sum and income protection)
  – dread disease cover
  – continuation of insurance option.
- Factors affecting these risks and how they are managed:
  – Contracts are similar to individual insurance contracts but there is greater risk of correlation between claims on group schemes because the assured lives live in the same geographical location or work in the same industry; hence a higher degree of concentration risk.
  – 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 combat 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.

45 INSURANCE AND INVESTMENT BUSINESS *continued*
45.2 Long-term insurance risk *continued*
45.2.1 Mortality, longevity, morbidity and medical risks *continued*

- 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	2015	2014
0 – 1 000	7 815	7 488
1 001 – 5 000	438	451
> 5 000	204	214
Subtotal	8 457	8 153
Cell captive business	58	22
Total	8 515	8 175

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.

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

Annuity amount per annum (Rands)	2015 Number of annuitants	2015 Total amount per annum Rm	2014 Number of annuitants	2014 Total amount per annum Rm
0 – 10 000	81 885	341	83 240	340
10 001 – 50 000	48 418	1 084	47 960	1 071
50 001 – 100 000	10 353	720	9 515	664
100 001 – 200 000	4 818	662	4 198	576
> 200 000	2 492	912	2 124	787
Subtotal	147 966		147 037	
Cell captive business	1 342	68	2 420	28
Total	149 308		149 457	

45 INSURANCE AND INVESTMENT BUSINESS *continued*

45.2 Long-term insurance risk *continued*

45.2.1 Mortality, longevity, morbidity and medical risks *continued*

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. On-going claims in payment are also reviewed annually to ensure claimants still qualify and rehabilitation is managed and encouraged.

45.2.2 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, specific amounts are 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.
- 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.

45.2.3 Retrenchment risk

Retrenchment risk is the risk of loss, or of adverse changes in the value of insurance liabilities, 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.

45.2.4 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.

45 INSURANCE AND INVESTMENT BUSINESS *continued*

45.2 Long-term insurance risk *continued*

45.2.5 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. 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.

45.3 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.

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 (see Guardrisk Insurance section 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 and includes a reinsurance policy in respect of such a policy.
- Property: Provides policy benefits for loss of or damage relating to the possession, use, or ownership of moveable and immovable property and includes a reinsurance policy in respect of such a policy.
- 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.
- 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.
- 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 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.

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

	2015 Rm	2014 Rm
Premiums	**7 130**	2 830
Claims	**4 062**	1 649

46 GUARDRISK

Introduction

MMI Holdings Ltd acquired 100% of Guardrisk on 3 March 2014. Guardrisk has not yet fully aligned all its risk management processes to that of the MMI group, although significant progress has been made.

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 policies 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" will exclude 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.

Contingency policy: 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.

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.

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. Also 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.

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.

46 **GUARDRISK** *continued*

Risk management *continued*

Cell captive arrangements *continued*

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

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 permissable 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 license 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.

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, occurs; 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.

46 GUARDRISK *continued*

Risk management *continued*

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 a risk committee. This committee considers 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 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.

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 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.

46 GUARDRISK *continued*

Risk management *continued*

Credit risk *continued*

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 has 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.

47 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.

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.

48 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.

The divisional policyholder investment committees oversee the management and monitoring of funding and liquidity risks that are assumed on behalf of policyholders. These committees ensure that investment mandates and benchmarks are informed by the liability profile of the underlying products and that investments are made in assets that are expected to provide cash flows matching liability outflows as and when these are expected to occur.

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 85% (2014: 87%) of the liabilities of the group. Management of the liquidity risk thereof is described on the following page in terms of policyholder benefits.

48 LIQUIDITY RISK *continued*

Liquidity risk management *continued*

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 contract normally allow for a staggered approach to early termination benefit payments. Examples of the latter are contracts that invest in unlisted equity and certain property funds.

When a particular policyholder fund is contracting (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.

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 liabilities 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.

These contracts provide guaranteed annuity benefits and 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.

48 LIQUIDITY RISK *continued*

Liquidity risk management *continued*

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 restricts 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:

Financial asset liquidity	2015 %	2015 Rm	Restated 2014 %	Restated 2014 Rm
High[1]	**66%**	**296 392**	71%	293 110
Medium[2]	**28%**	**125 591**	24%	97 879
Low/illiquid[3]	**5%**	**23 979**	5%	22 706
Other assets not included above				
– non-current assets held for sale		**–**		17
– employee benefit assets		**408**		405
– accelerated rental income		**184**		128
– deferred income tax		**287**		263
Total assets		**446 841**		414 508

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).

48 LIQUIDITY RISK *continued*

Maturity profile of liabilities

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

2015 R million	Carrying value	Total	Open-ended[1]	0 to 1 year	1 to 5 years	5 to 10 years	> 10 years
Insurance contracts (discounted cash flows)[2]	103 540	103 540	15 055	11 316	24 531	20 184	32 454
Linked (market-related) business							
Individual	19 061	19 061	1 138	1 147	4 464	4 162	8 150
Employee benefits	1 285	1 285	–	149	457	327	352
Smoothed bonus business							
Individual	27 582	27 582	1 757	3 240	8 045	6 474	8 066
Conventional with-profit business	9 223	9 223	3 592	501	892	672	3 566
Non-profit business							
Individual	6 031	6 031	1 884	1 572	671	360	1 544
Employee benefits	2 166	2 166	61	1 235	258	208	404
Annuity business	38 192	38 192	6 623	3 472	9 744	7 981	10 372
Investment contracts with DPF (discounted cash flows)[2]	26 073	26 073	20 361	753	2 143	1 368	1 448
Linked (market-related) business							
Individual	143	143	–	27	38	46	32
Smoothed bonus business							
Individual	7 081	7 081	1 517	723	2 104	1 321	1 416
Employee benefits	17 703	17 703	17 701	–	1	1	–
Conventional with-profit business	3	3	–	3	–	–	–
Non-profit business							
Individual	3	3	3	–	–	–	–
Annuity business	1 140	1 140	1 140	–	–	–	–
Investment contracts (undiscounted cash flows)	210 487	210 493	107 318	4 084	13 359	10 660	75 072
Linked (market-related) business							
Individual	130 788	129 287	37 697	2 715	4 965	9 972	73 938
Employee benefits	70 551	70 376	69 079	14	68	115	1 100
Non-profit business							
Individual	6 324	7 894	97	854	6 842	100	1
Annuity business	2 824	2 936	445	501	1 484	473	33
Subtotal policyholder liabilities under insurance and investment contracts	340 100	340 106	142 734	16 153	40 033	32 212	108 974
Cell captive and short-term business	17 719						
Total policyholder liabilities under insurance and investment contracts	357 819	340 106	142 734	16 153	40 033	32 212	108 974
Financial liabilities designated at fair value through income	39 720	40 799	25 869	10 788	3 317	825	–
Collective investment scheme liabilities	25 869	25 869	25 869	–	–	–	–
Subordinated call notes	3 320	4 377	–	1 244	2 308	825	–
Carry positions	9 370	9 392	–	9 392	–	–	–
Preference shares	1 016	1 016	–	16	1 000	–	–
Other	145	145	–	136	9	–	–
Derivative financial instruments[3]	2 111						
Amortised cost	1 092	1 459	–	212	719	528	–
Cumulative redeemable convertible preference shares	293	378	–	43	335	–	–
Finance lease liabilities	2	2	–	1	1	–	–
Other	797	1 079	–	168	383	528	–
Reinsurance contract liabilities	659	659	–	135	337	157	30
Other payables at amortised cost[4]	11 835	11 835	–	11 832	3	–	–
Other liabilities[5]	8 557						
Total liabilities	421 793	394 858	168 603	39 120	44 409	33 722	109 004

48 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 on page 207.

[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 discounted cash flows, ie the estimated timing of repayment of the amounts recognised in the statement of financial position, are disclosed for insurance contract liabilities and investment contracts with DPF liabilities. The assumptions used to calculate the statement of financial position value of these liabilities are disclosed in note 17.
- For investment contracts with DPF liabilities, the discretionary component of the liability has been allocated in line with the underlying expected benefits payable to policyholders.

Financial liabilities designated at fair value

- 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 27 June 2017. 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 June 2017, 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.
- The subordinated redeemable debt was redeemed on 15 December 2014.
- Included in other payables at amortised cost is a loan from FirstRand Bank Ltd of R489 million (2014: R463 million). Interest on the loan is levied at the prime rate minus 1%. The interest is repaid monthly with the capital balance payable in December 2025. The loan is secured by the underlying property.

48 **LIQUIDITY RISK** *continued*

Maturity profile of liabilities *continued*

Restated 2014 R million	Carrying value	Total	Open-ended	0 to 1 year	1 to 5 years	5 to 10 years	> 10 years
Insurance contracts (discounted cash flows)	104 519	104 519	6 748	13 355	25 261	21 419	37 736
Linked (market-related) business							
Individual	21 937	21 937	1 266	2 326	4 865	4 502	8 978
Employee benefits	1 233	1 233	–	143	438	314	338
Smoothed bonus business							
Individual	28 297	28 297	1 116	3 517	7 568	7 401	8 695
Employee benefits	3	3	–	3	–	–	–
Conventional with-profit business	9 461	9 461	3 297	599	972	829	3 764
Non-profit business							
Individual	5 243	5 243	411	2 184	1 345	311	992
Employee benefits	2 215	2 215	43	1 249	337	242	344
Annuity business	36 130	36 130	615	3 334	9 736	7 820	14 625
Investment contracts with DPF (discounted cash flows)	25 347	25 347	19 010	667	2 106	1 536	2 028
Linked (market-related) business							
Individual	161	161	–	22	56	49	34
Smoothed bonus business							
Individual	7 467	7 467	1 226	650	2 069	1 508	2 014
Employee benefits	17 775	17 775	17 773	–	1	1	–
Conventional with-profit business	3	3	–	3	–	–	–
Non-profit business							
Individual	(59)	(59)	11	(8)	(20)	(22)	(20)
Investment contracts (undiscounted cash flows)	192 786	192 997	98 266	4 473	12 412	9 040	68 806
Linked (market-related) business							
Individual	120 325	118 738	35 543	2 407	5 070	7 852	67 866
Employee benefits	62 637	62 637	62 572	65	–	–	–
Non-profit business							
Individual	6 048	7 391	127	1 487	5 714	59	4
Annuity business	3 776	4 231	24	514	1 628	1 129	936
Subtotal policyholder liabilities under insurance and investment contracts	322 652	322 863	124 024	18 495	39 779	31 995	108 570
Cell captive and short-term business	15 947						
Total policyholder liabilities under insurance and investment contracts	338 599	322 863	124 024	18 495	39 779	31 995	108 570
Financial liabilities designated at fair value through income	30 801	31 705	22 313	5 111	3 380	901	–
Collective investment scheme liabilities	22 313	22 313	22 313	–	–	–	–
Subordinated call notes	2 573	3 477	–	219	2 357	901	–
Carry positions	4 851	4 851	–	4 851	–	–	–
Preference shares	1 001	1 001	–	1	1 000	–	–
Other	63	63	–	40	23	–	–
Derivative financial instruments	1 853						
Amortised cost	1 463	1 671	–	1 203	445	23	–
Cumulative redeemable convertible preference shares	313	453	–	46	407	–	–
Subordinated redeemable debt	511	523	–	523	–	–	–
Finance lease liabilities	2	2	–	1	1	–	–
Other	637	693	–	633	37	23	–
Reinsurance contract liabilities	202	202	–	3	39	53	107
Other payables at amortised cost	8 548	8 548	–	8 545	3	–	–
Other liabilities	7 828						
Total liabilities	389 294	364 989	146 337	33 357	43 646	32 972	108 677

48 **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.

2015 R million	Carrying value	Total	0 to 1 year	1 to 5 years	> 5 years
Derivatives held for trading					
Equity derivatives	(39)	(56)	(56)	–	–
Interest rate derivatives	669	425	18	1 537	(1 130)
Bond derivatives	44	44	44	–	–
Credit derivatives	(3)	(14)	5	2	(21)
Currency derivatives	(755)	(333)	(35)	(59)	(239)
	(84)	66	(24)	1 480	(1 390)
Derivatives held for hedging					
Fair value hedges	6	6	6	–	–
Total net undiscounted cash flow projections	(78)	72	(18)	1 480	(1 390)
Derivative financial instruments					
Assets	2 033				
Liabilities	(2 111)				
	(78)				
2014 **R million**					
Derivatives held for trading					
Equity derivatives	(70)	(80)	(80)	–	–
Interest rate derivatives	839	1 680	258	661	761
Bond derivatives	9	9	9	–	–
Credit derivatives	2	3	–	1	2
Currency derivatives	(286)	(125)	2	6	(133)
	494	1 487	189	668	630
Derivatives held for hedging					
Fair value hedges	15	15	13	2	–
Total net undiscounted cash flow projections	509	1 502	202	670	630
Derivative financial instruments					
Assets	2 362				
Liabilities	(1 853)				
	509				

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The key components of market risk are: price risk, interest rate risk and currency risk. Financial instruments held by the group are subject to the components of market risk as follows:

	Carrying value 2015 Rm	Carrying value Restated 2014 Rm	Market price risk	Interest rate risk	Currency risk
Assets					
Carried at fair value					
Designated at fair value through income					
Equity securities	**104 748**	100 790	✓✓		✓
Debt securities	**104 176**	88 788	✓	✓✓	✓
Funds on deposit and other money market instruments	**24 473**	24 941	✓	✓✓	✓
Unit-linked investments	**132 330**	120 477	✓✓	✓	✓
Investments in associates designated at fair value through income	**12 362**	11 900	✓✓	✓	✓
Derivative financial instruments					
Held for trading	**2 027**	2 347	✓✓	✓✓	✓
Held for hedging purposes	**6**	15	✓✓	✓✓	✓
Available-for-sale					
Equity securities	**195**	94	✓✓		
Debt securities	**–**	31	✓	✓✓	
Local unlisted quoted collective investment schemes	**13**	4	✓✓		
Carried at amortised cost					
Held-to-maturity					
Funds on deposit and other money market instruments	**42**	85		✓✓	✓✓
Debt securities	**31**	15		✓	✓
Loans and receivables					
Accounts receivable	**2 790**	2 444		✓	✓
Unsettled trades	**2 503**	772			✓
Loans	**2 359**	2 370		✓✓	✓
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**3 859**	3 669		✓	✓
Cash and cash equivalents	**26 174**	28 875		✓✓	✓
Other assets	**28 753**	26 891	N/A	N/A	N/A
Total assets	**446 841**	414 508			

	Carrying value 2015 Rm	Restated 2014 Rm	Market price risk	Interest rate risk	Currency risk
49 MARKET RISK *continued*					
Liabilities					
Carried at fair value					
Investment contracts					
Designated at fair value through income	**220 356**	201 651	✓✓	✓✓	✓
Designated at fair value through income					
Collective investment scheme liabilities	**25 869**	22 313	✓✓	✓	✓
Subordinated call notes	**3 320**	2 573	✓	✓✓	
Carry positions	**9 370**	4 851	✓	✓✓	
Preference shares	**1 016**	1 001	✓	✓✓	
Other	**145**	63		✓	✓
Derivative financial instruments					
Held for trading	**2 111**	1 853	✓✓	✓✓	✓
Carried at amortised cost					
Financial liabilities					
Cumulative redeemable preference shares	**293**	313		✓✓	
Subordinated redeemable debt	**–**	511		✓✓	
Finance lease liabilities	**2**	2		✓✓	
Other	**797**	637		✓	
Other payables					
Payables arising from insurance contracts and investment contracts with DPF (excluding premiums received in advance)	**2 465**	2 396			✓
Payables arising from investment contracts	**1 451**	1 025			✓
Collective investment scheme income distribution payable	**636**	218			✓
Unsettled trades	**3 187**	992			✓
Commission creditors	**573**	550		✓	✓
Other payables at amortised cost	**3 523**	3 367		✓	✓
Insurance contract liabilities	**111 329**	111 543	*	*	*
Investment contracts with DPF liabilities	**26 134**	25 405	✓✓	✓✓	✓✓
Other non-financial liabilities	**9 216**	8 030	N/A	N/A	N/A
Total liabilities	**421 793**	389 294			

✓✓ High exposure
✓ Medium/low exposure
* These liabilities are not financial instruments and the risks to which they are subject to are explained in note 45.

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.

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

- the policyholder carries the majority of the market risk; while
- the group carries a 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.

49 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 Management 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 Policyholder Investment 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. The 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 below.

Market risk management per product

Individual and group contracts with discretionary participation features (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 bonus stabilisation account (BSA) for future distribution to policyholders.

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

- In valuing the liabilities it is assumed that lower bonuses will be declared in future.
- Lower bonuses are actually declared.
- For those contracts where a portion of bonuses declared is not vested, the 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.
- An additional BSA is held for the benefit of shareholders to provide an additional layer of protection under extreme market conditions against the risk of removal of non-vested bonuses caused by fluctuations in the values of assets backing smoothed bonus liabilities. This liability is in addition to the policyholder bonus stabilisation accounts described elsewhere, and is not distributed to policyholders other than in very extreme circumstances.
- In very extreme circumstances, funds may be transferred from the shareholder portfolio into the BSA on a temporary or permanent basis.

Individual and group contracts with discretionary participation features (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.

To protect equity between different generations of policyholders, the additional BSA may be utilised to temporarily or permanently top up the BSA on recommendation of the Actuarial Committee and approval from the board.

49 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. 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. 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 R60 million (2014: R6 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 8.9% (2014: 9.0%).

49 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 lower than that assumed when the price of insurance business was determined. The market risk on these contracts is mitigated through an actively managed combination of interest rate securities and interest rate derivatives.

Individual life investment products

The expected future charges, expense outgo and risk benefit payments (including margins) on investment business 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.

49.1 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 systemic 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 unlisted investments board, represented by the 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 49.5.

49 MARKET RISK *continued*

49.2 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 2015	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	**104 176**	**36 443**	**64 638**	**3 095**	**7.4**
Funds on deposit and other money market instruments	**24 473**	**20 992**	**3 481**	**–**	**6.6**
Derivative financial assets	**2 033**	**–**	**2 033**	**–**	**N/A**
Derivative financial liabilities	**(2 111)**	**–**	**(2 111)**	**–**	**N/A**
Held-to-maturity					
Funds on deposit and other money market instruments	**42**	**–**	**42**	**–**	**10.0**
Debt securities	**31**	**–**	**31**	**–**	**6.4**
Cash and cash equivalents	**26 174**	**21 137**	**4 762**	**275**	**3.7**
Loans and receivables	**7 652**	**1 544**	**933**	**5 175**	**5.2**
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	**3 859**	**516**	**193**	**3 150**	**–**
	166 329	**80 632**	**74 002**	**11 695**	
Restated **2014**					
Designated at fair value through income					
Debt securities	88 788	31 745	53 663	3 380	6.9
Funds on deposit and other money market instruments	24 941	21 012	3 929	–	6.9
Derivative financial assets	2 362	–	2 362	–	N/A
Derivative financial liabilities	(1 853)	–	(1 853)	–	N/A
Available-for-sale					
Debt securities	31	31	–	–	6.0
Held-to-maturity					
Funds on deposit and other money market instruments	85	85	–	–	6.9
Debt securities	15	15	–	–	6.0
Cash and cash equivalents	28 875	26 920	1 197	758	3.8
Loans and receivables	5 586	1 017	584	3 985	6.9
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	3 669	22	8	3 639	–
	152 499	80 847	59 890	11 762	

There is a contractual re-pricing of the coupon interest rate prior to the maturity date on the held-to-maturity assets with a carrying value of Rnil (2014: R76 million).

Liability exposure to interest rates is reflected in notes 18 and 19.

49 MARKET RISK *continued*

49.3 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 maluti and Swazi emalangeni currencies that are pegged to the South African rand on a 1:1 basis do not form part of the currency risk of 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:

2015	Africa Rm	UK £ Rm	US $ Rm	Euro Rm	Asian Pacific Rm	Other Rm	Total Rm
Closing exchange rate		*19.1850*	*12.1733*	*13.6512*			
Investment securities							
Designated at fair value through income							
Equity securities	1 208	2 384	15 597	1 481	1 877	1 154	23 701
Debt securities	1 139	148	2 254	1 611	–	3	5 155
Funds on deposit and other money market instruments	274	4	5	–	–	5	288
Unit-linked investments	–	1 209	28 182	1 331	3	83	30 808
Investments in associates	–	77	250	–	–	–	327
Derivative financial instruments	–	–	45	1	–	1	47
Available-for-sale							
Equity securities	179	–	–	–	–	–	179
Held-to-maturity							
Funds on deposit and other money market instruments	42	–	–	–	–	–	42
Debt securities	31	–	–	–	–	–	31
Loans and receivables	209	39	224	17	21	3	513
Cash and cash equivalents	628	392	5 001	558	100	9	6 688
Other financial assets	102	–	250	–	–	–	352
	3 812	4 253	51 808	4 999	2 001	1 258	68 131

49 MARKET RISK *continued*
49.3 Currency risk *continued*

2014	Africa Rm	UK £ Rm	US $ Rm	Euro Rm	Asian Pacific Rm	Other Rm	Total Rm
Closing exchange rate		*18.0649*	*10.6133*	*14.4904*			
Investment securities							
Designated at fair value through income							
Equity securities	1 184	1 985	13 654	1 591	1 460	1 198	21 072
Debt securities	928	40	1 700	1 472	5	4	4 149
Funds on deposit and other money market instruments	330	14	16	28	–	–	388
Unit-linked investments	–	1 119	23 895	1 021	68	52	26 155
Investments in associates	–	1	373	–	–	–	374
Derivative financial instruments	–	–	71	1	–	–	72
Available-for-sale							
Equity securities	22	–	30	1	–	35	88
Debt securities	30	–	–	–	–	–	30
Held-to-maturity							
Funds on deposit and other money market instruments	85	–	–	–	–	–	85
Debt securities	15	–	–	–	–	–	15
Loans and receivables	198	84	402	2	7	–	693
Cash and cash equivalents	557	448	5 095	679	65	3	6 847
Other financial assets	185	–	2	–	–	–	187
	3 534	3 691	45 238	4 795	1 605	1 292	60 155

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
2015	**1.2332**	**2.7949**	**0.1228**	**0.0618**
2014	1.2062	3.4072	0.1212	0.0652

49.4 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:

	2015 Rm	2014 Rm
Investment properties	**7 212**	7 675
Owner-occupied properties	**3 030**	1 714
Properties under development	**330**	252
Collective investment schemes > 55% property exposure (refer to Annexure B)	**5 115**	2 862
	15 687	12 503
Percentage of total assets	**3.5%**	3.0%

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 2015. The carrying amount of unlet and vacant investment property as at 30 June 2015 was R553 million (2014: R301 million).

49 MARKET RISK *continued*

49.5 Sensitivity to market risk

The group's earnings and net asset value are exposed to insurance and market risks. The group has identified that changes in insurance risk, equity prices and interest rates have the most significant effect on earnings and equity. Refer to note 17 for sensitivities around insurance risk. 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	
2015	**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	**414**	**(407)**	**63**	**(63)**
Increase/(decrease) in equity	**645**	**(639)**	**63**	**(63)**
Restated 2014				
Increase/(decrease) in earnings per income statement	304	(305)	8	(12)
Increase/(decrease) in equity	561	(563)	8	(12)

2014 reclassification

Prior year sensitivities have been restated to reflect updated interpretation of the items on which sensitivities were applied relating inter alia to the treatment of subsidiaries.

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.
- These limits are set taking into account actuarial guidance relating to acceptable ranges of sensitivities within a normal asset distribution. 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 49.3 for more details on the group's currency exposure.

50 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 approval committees are responsible for setting the credit risk sections of mandates for linked policyholder portfolios and policyholder investment committees are responsible 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.

A credit approval committee, which is a sub-committee of the executive BSM, is responsible for approving credit assets for shareholder portfolios. The approval is subject to:

- 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 Fitch, 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.

50 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 GMSLA agreements.

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 as determined in accordance with the accounting policies.

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.

50 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

The group's maximum exposure to credit risk is through the following classes of assets, and is equal to their carrying values:

	2015 Rm	Restated 2014 Rm
Designated at fair value through income		
Debt securities	104 176	88 788
Stock and loans to government and other public bodies	44 255	35 452
Other debt instruments	59 921	53 336
Funds on deposit and other money market instruments	24 473	24 941
Unit-linked investments (categorised as interest-bearing and money market – refer to Annexure B)	19 541	19 699
Collective investment schemes	17 560	17 679
Other unit-linked investments	1 981	2 020
Derivative financial instruments	2 033	2 362
Held for trading	2 027	2 347
Held for hedging purposes	6	15
Available-for-sale		
Debt securities	–	31
Held-to-maturity	73	100
Funds on deposit and other money market instruments	42	85
Debt securities	31	15
Loans and receivables	7 652	5 586
Accounts receivable	2 790	2 444
Unsettled trades	2 503	772
Loans	2 359	2 370
Other receivables		
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	3 859	3 669
Cash and cash equivalents	26 174	28 875
Total assets bearing credit risk	**187 981**	174 051

Financial assets and liabilities designated at fair value through income

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

The current year and cumulative fair value movements in these instruments were mainly due to market movements. The current year fair value movement includes R69 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). The fair value movement attributable to credit risk for the prior year was not considered significant.

On 12 March 2015, Fitch affirmed the credit ratings of MMIGL. The National Insurer Financial Strength rating of MMIGL was affirmed at "AA+(zaf)" with a Stable Outlook. Fitch simultaneously affirmed the credit rating of MMIGL's subordinated notes at "A+(zaf)".

50 CREDIT RISK *continued*

Financial assets and liabilities designated at fair value through income *continued*

	Carrying value 2015 Rm	Carrying value Restated 2014 Rm
Assets		
Debt securities	71 710	66 316
Funds on deposit and other money market instruments	14 531	11 740
	86 241	78 056
Liabilities		
Policyholder liabilities under investment contracts	220 356	201 651
Collective investment scheme liabilities	25 869	22 313
Subordinated call notes	3 320	2 573
Carry positions	9 370	4 851
Preference shares	1 016	1 001
Other	145	63
	260 076	232 452

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 above.

Debt securities

The group has a continuing guarantee relating to the full payment of the value of certain annuities, up to a maximum of R1 billion, if an event of default occurs. The fair value of these debt instruments at the reporting date was R221 million (2014: R198 million).

The group acquired cash flows of property rental agreements of which a portion, with a total market value of R936 million (2014: R1 121 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 R953 million at 30 June 2015 (2014: R1 159 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 note 18). Refer below for detail on scrip lending arrangements as well as related security and credit enhancements. Also refer to the accounting policies for more detail on the nature of the arrangements.

The carrying value of scrip lent is R2 157 million (2014: R2 069 million) consisting of local listed equity securities. There is no collateral on the scrip lent as at the end of the current or prior year.

50 CREDIT RISK *continued*

Security and credit enhancements *continued*

Offsetting

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements.

Financial assets	Derivative financial assets 2015 Rm	Derivative financial assets 2014 Rm
Gross amounts of recognised financial assets	**2 033**	2 494
Gross amounts of recognised financial liabilities set off in the statement of financial position	**–**	(132)
Net amounts of financial assets presented in the statement of financial position	**2 033**	2 362
Related amounts not set off in the statement of financial position		
Financial instruments	**(791)**	(824)
Net amount	**1 242**	1 538

Financial liabilities	Derivative financial liabilities 2015 Rm	Derivative financial liabilities 2014 Rm
Gross amounts of recognised financial liabilities	**2 111**	1 985
Gross amounts of recognised financial assets set off in the statement of financial position	**–**	(132)
Net amounts of financial liabilities presented in the statement of financial position	**2 111**	1 853
Related amounts not set off in the statement of financial position		
Financial instruments	**(791)**	(824)
Net amount	**1 320**	1 029

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 444 million (2014: R1 421 million) are limited to and secured by the underlying value of the unpaid policy benefits. For further details refer to note 7. The underlying value of the policy benefits exceed 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.

50 **CREDIT RISK** *continued*

Credit quality

The assets in the group's maximum exposure table on page 219 are analysed in the table below, using national scale long-term credit ratings issued by rating agencies, or national scale ratings generated by an internal model where rating agency ratings are not available. The internal rating scale is based on internal definitions and influenced by definitions published by external rating agencies including Fitch, Moody's, S&P and GCR.

Rating definitions

AAA National scale ratings denote the highest rating that can be assigned. This rating is assigned to the best credit risk relative to all other issuers.
AA National ratings denote a very strong credit risk relative to all other issuers.
A National ratings denote a strong credit risk relative to all other issuers.
BBB National ratings denote an adequate credit risk relative to all other issuers.
BB National ratings denote a fairly weak credit risk relative to all other issuers.
B National ratings denote a significantly weak credit risk relative to all other issuers.
CCC National ratings denote an extremely weak credit risk relative to other issuers.
Unrated The group invests in unrated assets where investment mandates allow for this. These investments are however subject to internal credit assessments.

2015	AAA Rm	AA Rm	A Rm	BBB Rm	BB Rm	B Rm	CCC[2] Rm	Unrated Rm	Total Rm
Debt securities – stock and loans to government and other public bodies	29 427	5 493	9 079	–	–	42	–	214	44 255
Debt securities – other debt instruments	9 663	7 480	37 147	2 184	310	281	1 324	1 532	59 921
Cash and cash equivalents and funds on deposit	5 268	18 532	23 551	419	6	59	31	2 781	50 647
Derivative financial instruments	464	76	1 485	–	–	–	–	8	2 033
Held-to-maturity	23	–	–	–	–	–	–	50	73
Other unrated instruments									
Loans and other receivables	–	–	–	–	–	–	–	8 278	8 278
Other receivables	–	–	–	–	–	–	–	3 020	3 020
Unit-linked investments[1]	–	–	–	–	–	–	–	19 541	19 541
Past due or impaired assets	–	–	–	–	–	–	–	213	213
	44 845	31 581	71 262	2 603	316	382	1 355	35 637	187 981

1 Refer to page 258 for detail on unit-linked investments and page 218 for credit risk management relating to unit-linked investments.
2 ABIL and its various subsidiaries were placed under curatorship during the current year. These instruments are classified as CCC in the current year.

50 CREDIT RISK *continued*
Credit quality *continued*

Restated 2014	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	20 070	12 412	2 909	–	11	12	38	35 452
Debt securities – other debt instruments	7 208	33 431	9 235	1 124	158	108	2 072	53 336
Cash and cash equivalents and funds on deposit	4 940	34 413	7 355	1 118	–	182	5 808	53 816
Derivative financial instruments	389	1 892	74	–	–	–	7	2 362
Available-for-sale	–	–	–	–	–	–	31	31
Held-to-maturity	76	–	–	–	–	–	24	100
Other unrated instruments								
Loans and other receivables	–	–	–	–	–	–	4 418	4 418
Other receivables	–	–	–	–	–	–	2 288	2 288
Unit-linked investments[1]	–	–	–	–	–	–	19 699	19 699
Past due or impaired assets	–	–	–	–	–	–	2 549	2 549
	32 683	82 148	19 573	2 242	169	302	36 934	174 051

[1] Refer to page 258 for detail on unit-linked investments and page 218 for credit risk management relating to unit-linked investments.

50 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 (included in Other receivables) as well as their respective national scale credit rating issued by rating agencies, or national scale ratings generated by an internal model where rating agency ratings are not available:

	2015		2014	
Reinsurer	Reinsured portion – %	Credit rating	Reinsured portion – %	Credit rating
Swiss Re	24%	AA	20%	AA
General Cologne Re	22%	AA	19%	AA
Hannover Re	5%	AA	8%	A
RGA Re	6%	AA	5%	AA
Munich Re	18%	AA	29%	AA
Other	25%	A	19%	–
	100%		100%	

The following tables analyse the age of financial assets that are past due as at the reporting date but not impaired.

2015	0 – 90 days Rm	90 days – 1 year Rm	1 – 5 years Rm	> 5 years Rm	Total Rm
Securities designated at fair value through income[1]					
Debt securities – other debt instruments	225	485	–	–	710
Unit-linked investments	1	–	–	–	1
Loans and receivables					
Loans (including amounts due from agents, brokers and intermediaries)	247	123	96	8	474
Accounts receivable	874	232	100	7	1 213
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	1 027	10	–	19	1 056
	2 374	850	196	34	3 454
2014					
Loans and receivables					
Loans (including amounts due from agents, brokers and intermediaries)	99	61	39	2	201
Accounts receivable	393	955	23	1	1 372
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	738	80	121	–	939
	1 230	1 096	183	3	2 512

[1] The securities designated at fair value through income in the current year relate to the ABIL instruments that have matured but has not yet been repaid as at year-end.

51 VALUATION TECHNIQUES

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 bi-annually, in line with the group's bi-annual 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 pages 229 to 233 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	Discounted cash flow (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

51 VALUATION TECHNIQUES *continued*

Instrument	Valuation basis	Main assumptions
Other debt securities		
– Listed, local	DCF (BESA and ASSA bond perfect fit zero curve and other published real or nominal yields, uplifted with inflation), external valuations (linked notes), or published price quotations on JSE equity (preference shares) and interest rate market	Market input, uplifted with inflation
– Listed, foreign	External valuations that are based on published market input	Market input
– Unlisted	DCF (market-related nominal and real discount rates, bank and credit default swap curves, government bond yield curve plus a spread, three-month JIBAR plus fixed spread), external valuations, NAV of a hedge fund	Market input and appropriate spread
Funds on deposit and other money market instruments		
– Listed	DCF (market-related yields), issue price, 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 (which are based on yield of benchmark bond)	Market input
Carry positions (Liability)	DCF (in accordance with JSE interest rate market repo pricing methodology)	Market input, contract input
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.

51 **VALUATION TECHNIQUES** *continued*

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
Securities designated at fair value through income				
Equity securities				
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
Debt securities				
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	Discounted cash flow	Nominal interest rate	8.51% to 9.99% (2014: 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
Unlisted	Discounted cash flow	Nominal interest rate	6.73% to 10.69% (2014: 5.80% to 10.04%); 7.38% to 13.09% (2014: 6.75% to 14.01%)	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

51 VALUATION TECHNIQUES *continued*

Information about fair value measurements using significant unobservable inputs *(level 3) continued*

Financial assets	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability weighted average)	Relationship of unobservable inputs to 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 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
Other unit-linked investments				
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

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	Discounted cash flow	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 embedded value	Could vary significantly based on the risks associated with the investee	The higher the embedded value, the greater the fair value

There were no significant changes in the valuation methods applied since the prior year, except for transfers between levels.

51 VALUATION TECHNIQUES *continued*

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

2015	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Financial assets				
Securities designated at fair value through income	232 804	126 361	6 562	365 727
Equity securities				
Local listed	79 806	37	–	79 843
Foreign listed	23 566	1 033	16	24 615
Unlisted	–	75	215	290
Debt securities				
Stock and loans to government and other public bodies				
Local listed	29 009	10 393	–	39 402
Foreign listed	596	1 312	24	1 932
Unlisted	–	2 840	81	2 921
Other debt instruments				
Local listed	215	25 621	114	25 950
Foreign listed	91	471	2	564
Unlisted	16	29 817	3 574	33 407
Funds on deposit and other money market instruments	–	24 470	3	24 473
Unit-linked investments				
Collective investment schemes[1]				
Local unlisted or listed quoted	78 158	360	61	78 579
Foreign unlisted or listed quoted	20 358	9 667	2	30 027
Foreign unlisted unquoted	–	470	433	903
Other unit-linked investments				
Local unlisted or listed quoted	984	8 311	1	9 296
Local unlisted unquoted	–	10 222	2 019	12 241
Foreign unlisted unquoted	–	1 262	17	1 279
Foreign unlisted or listed quoted	5	–	–	5
Investments in associates designated at fair value through income[1]	12 280	–	82	12 362
Derivative financial instruments	109	1 924	–	2 033
Held for trading	109	1 918	–	2 027
Held for hedging purposes	–	6	–	6
Available-for-sale	190	14	4	208
Equity securities				
Local listed	12	–	–	12
Foreign listed	147	–	–	147
Unlisted	31	1	4	36
Unit-linked investments				
Local unlisted or listed quoted	–	13	–	13
Non-financial assets				
Owner-occupied properties	–	–	3 030	3 030
Investment properties	–	–	7 212	7 212
	245 383	128 299	16 890	390 572

[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. ABIL retention funds have been classified as level 3.

51 VALUATION TECHNIQUES *continued*

Restated 2014	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Financial assets				
Securities designated at fair value through income	221 835	106 619	6 542	334 996
Equity securities				
Local listed	78 237	24	–	78 261
Foreign listed	20 878	792	2	21 672
Unlisted	–	129	728	857
Debt securities				
Stock and loans to government and other public bodies				
Local listed[1]	23 466	7 048	–	30 514
Foreign listed	424	1 258	24	1 706
Unlisted	6	3 156	70	3 232
Other debt instruments				
Local listed	20	23 590	74	23 684
Foreign listed	47	440	4	491
Unlisted	5	26 357	2 799	29 161
Funds on deposit and other money market instruments	–	24 941	–	24 941
Unit-linked investments				
Collective investment schemes[2]				
Local unlisted or listed quoted	70 588	136	–	70 724
Foreign unlisted or listed quoted	25 583	358	1	25 942
Foreign unlisted unquoted	–	550	675	1 225
Other unit-linked investments				
Local unlisted or listed quoted	2 565	6 374	2	8 941
Local unlisted unquoted	–	10 174	2 159	12 333
Foreign unlisted unquoted	–	1 292	4	1 296
Foreign unlisted or listed quoted	16	–	–	16
Investments in associates at fair value through income[2]	11 900	–	–	11 900
Derivative financial instruments	71	2 291	–	2 362
Held for trading	71	2 276	–	2 347
Held for hedging purposes	–	15	–	15
Available-for-sale	121	4	4	129
Equity securities				
Local listed	3	–	–	3
Foreign listed	87	–	–	87
Unlisted	–	–	4	4
Debt securities				
Foreign listed	31	–	–	31
Unit-linked investments				
Local unlisted or listed quoted	–	4	–	4
Non-financial assets				
Owner-occupied properties	–	–	1 714	1 714
Investment properties	–	–	7 675	7 675
Non-current assets held for sale	17	–	–	17
	233 944	108 914	15 935	358 793

1 R626 million of listed government stock was transferred from level 2 to level 1 assets during the June 2014 year in line with classification policy. The timing of the transfers are deemed to have occurred at the beginning of the year.

2 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.

51 VALUATION TECHNIQUES *continued*

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

	Financial instruments					Non-financial instruments		
	Designated at fair value through income				Available-for-sale			
2015	Equity securities Rm	Debt securities[1] Rm	Unit-linked investments Rm	Investments in associates Unit-linked investments Rm	Equity securities Rm	Owner-occupied properties Rm	Investment properties Rm	Total Rm
Opening balance	730	2 971	2 841	–	4	1 714	7 675	15 935
Business combinations	–	–	–	–	–	19	116	135
Transfer from/(to) other asset classes	–	–	–	–	–	1 229	(1 229)	–
Total gains/(losses) in net realised and fair value gains in the income statement								
Realised gains/(losses)	338	25	(80)	–	–	–	1	284
Unrealised (losses)/gains	(32)	(237)	206	2	–	18	382	339
Total gains in other comprehensive income	–	–	–	–	–	122	–	122
Depreciation on owner-occupied properties	–	–	–	–	–	(61)	–	(61)
Accrued interest in investment income in the income statement	–	25	–	–	–	–	–	25
Purchases	187	885	784	1	–	9	370	2 236
Sales	(233)	(756)	(1 102)	–	–	(20)	(103)	(2 214)
Settlements	(759)	(133)	(183)	–	–	–	–	(1 075)
Transfers into level 3[2]	–	1 295	67	79	–	–	–	1 441
Transfers out of level 3	–	(277)	–	–	–	–	–	(277)
Closing balance	231	3 798	2 533	82	4	3 030	7 212	16 890

1 Includes funds on deposit and other money market instruments.

2 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 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 Ltd.

51 VALUATION TECHNIQUES *continued*

	Financial instruments						Non-financial instruments		
	Designated at fair value through income				Available-for-sale				
2014	**Equity securities Rm**	**Debt securities Rm**	**Unit-linked investments Rm**	**Investments in associates Unit-linked investments Rm**	**Equity securities Rm**	**Debt securities Rm**	**Owner-occupied properties Rm**	**Investment properties Rm**	**Total Rm**
Opening balance	820	4 846	2 571	41	24	374	1 488	6 433	16 597
Transfer from/(to) other asset classes	–	–	41	(41)	–	–	235	(235)	–
Total gains/(losses) in net realised and fair value gains in the income statement									
Realised gains/(losses)	2	(5)	(51)	–	–	–	(3)	–	(57)
Unrealised gains	177	552	259	–	–	–	27	541	1 556
Total gains in other comprehensive income	–	–	–	–	–	–	7	–	7
Depreciation on owner-occupied properties	–	–	–	–	–	–	(44)	–	(44)
Accrued interest in investment income in the income statement	–	62	14	–	–	–	–	–	76
Purchases	254	426	264	–	–	–	4	1 000	1 948
Sales	(523)	(377)	(188)	–	(20)	(374)	–	(64)	(1 546)
Settlements	–	(1 667)	(53)	–	–	–	–	–	(1 720)
Transfers into level 3	–	311	1	–	–	–	–	–	312
Transfers out of level 3[1]	–	(1 177)	(17)	–	–	–	–	–	(1 194)
Closing balance	730	2 971	2 841	–	4	–	1 714	7 675	15 935

[1] The reason for the transfer out of level 3 in the prior year is mainly as a result of obtaining access to more observable data and refining the valuation technique. The timing of the transfers are deemed to have occurred at the beginning of the year.

The amount of total gains or 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 R339 million (2014: R1 556 million) for the group.

51 VALUATION TECHNIQUES *continued*

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

2015	Financial instruments Designated at fair value through income				Available-for-sale	
	Equity securities Rm	Debt securities[1] Rm	Unit-linked investments Rm	Investments in associates Unit-linked investments Rm	Equity securities Rm	Total Rm
Carrying value	**231**	**3 798**	**2 533**	**82**	**4**	**6 648**
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	**23**	**6**	**253**	**N/A**	**N/A**	
Effect of decrease in assumption	**(23)**	**1**	**(253)**	**N/A**	**N/A**	
2014						
Carrying value	730	2 971	2 841	–	4	6 546
Assumption change	10% increase/ (decrease) in markets	1% increase/ (decrease) in interest rates	10% increase/ (decrease) in unit price	N/A	Not sensitive	
Effect of increase in assumption	73	(130)	284	N/A	N/A	
Effect of decrease in assumption	(73)	123	(284)	N/A	N/A	

1 June 2015 includes funds on deposit and other money market instruments.
2 For the sensitivities relating to Owner-occupied properties and Investment properties, please refer to note 2 and note 4 respectively.

The following liabilities are carried at fair value and have been split into a fair value hierarchy:

2015	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Investment contracts designated at fair value through income	**965**	**219 247**	**144**	**220 356**
Financial liabilities designated at fair value through income	**24 322**	**14 289**	**1 109**	**39 720**
Collective investment scheme liabilities	**24 322**	**583**	**964**	**25 869**
Subordinated call notes	**–**	**3 320**	**–**	**3 320**
Carry positions	**–**	**9 370**	**–**	**9 370**
Preference shares	**–**	**1 016**	**–**	**1 016**
Other borrowings	**–**	**–**	**145**	**145**
Derivative financial instruments	**163**	**1 948**	**–**	**2 111**
Held for trading	**163**	**1 948**	**–**	**2 111**
	25 450	**235 484**	**1 253**	**262 187**
2014				
Investment contracts designated at fair value through income	1 658	199 840	153	201 651
Financial liabilities designated at fair value through income	21 747	8 956	98	30 801
Collective investment scheme liabilities	21 747	526	40	22 313
Subordinated call notes	–	2 573	–	2 573
Carry positions	–	4 851	–	4 851
Preference shares	–	1 001	–	1 001
Other borrowings	–	5	58	63
Derivative financial instruments	176	1 677	–	1 853
Held for trading	176	1 677	–	1 853
	23 581	210 473	251	234 305

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

51 VALUATION TECHNIQUES *continued*

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

2015	Investment contracts designated at fair value through income Rm	Financial liabilities designated at fair value through income: Collective investment scheme liabilities Rm	Financial liabilities designated at fair value through income: Other borrowings Rm	Total Rm
Opening balance	153	40	58	251
Business combinations (refer to note 38)	–	–	4	4
Total losses/(gains) in net realised and fair value gains in the income statement				
Realised losses	1	189	–	190
Unrealised losses/(gains)	4	(11)	–	(7)
Issues	–	53	117	170
Settlements	–	(98)	(34)	(132)
Contract holder movements				
Benefits paid	(19)	–	–	(19)
Investment return	5	–	–	5
Transfers into level 3[1]	–	791	–	791
Closing balance	144	964	145	1 253

[1] The transfer into level 3 represents the ABIL retention funds consolidated as at 30 June 2015.

2014	Investment contracts designated at fair value through income Rm	Collective investment scheme liabilities Rm	Other borrowings Rm	Total Rm
Opening balance	663	–	–	663
Business combinations (refer to note 38)	–	–	4	4
Total losses/(gains) in net realised and fair value gains in the income statement				
Realised losses	5	–	–	5
Unrealised losses/(gains)	1	7	(3)	5
Issues	–	33	57	90
Settlements	(498)	–	–	(498)
Contract holder movements				
Benefits paid	(28)	–	–	(28)
Investment return	10	–	–	10
Closing balance	153	40	58	251

Sensitivity: Increasing/decreasing the investment return by 10% would decrease/increase the carrying value of level 3 financial instrument liabilities by R117 million and R118 million (2014: R30 million and R30 million), respectively.

51 VALUATION TECHNIQUES *continued*

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

	2015 Carrying value Rm	2015 Fair value Rm	2014 Carrying value Rm	2014 Fair value Rm
Assets				
Held-to-maturity financial instruments	73	73	100	100
Loans and receivables	7 652	7 666	5 586	5 636
Loans	2 359	2 373	2 370	2 420
Accounts receivable	2 790	2 790	2 444	2 444
Unsettled trades	2 503	2 503	772	772
Cash and cash equivalents	26 174	26 174	28 875	28 875
	33 899	33 913	34 561	34 611

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 loans to empowerment partners of R328 million (2014: R346 million) is the discounted amount of the estimated future cash flows expected to be received. The expected cash flows are discounted at 12% (2014: 12%).
- For policy loans, the fair value of R1 258 million (2014: R1 451 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 8.6% (2014: 8.5%).
- For the remainder of the loans, the carrying value approximates fair value due to their short-term nature.
- The loans and accounts receivable are classified as level 2.

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

	2015 Carrying value Rm	2015 Fair value Rm	2014 Carrying value Rm	2014 Fair value Rm
Liabilities				
Investment contracts with DPF	26 134	26 134	25 405	25 405
Amortised cost	1 092	1 772	1 463	2 053
Cumulative redeemable preference shares	293	973	313	903
Subordinated redeemable debt	–	–	511	511
Finance lease liabilities	2	2	2	2
Other	797	797	637	637
Other payables	11 835	11 828	8 548	8 516
Payables arising from investment contracts	1 451	1 451	1 025	1 025
Other payables	10 384	10 377	7 523	7 491
	39 061	39 734	35 416	35 974

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 2015, the expected cash flows were discounted at a current market rate of 11% (2014: 11%). 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)*
- The fair value of subordinated redeemable debt is determined using published price quotations in an active market (JSE interest rate market). The debt was redeemed during the current year. *(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.

52 JUNE 2014 RECLASSIFICATIONS

The group's June 2014 results have been restated for the following reclassifications:

- Certain income and expenses of R334 million in the Shareholder Capital segment have been set off to better reflect the information used by management.
- Promotor cell administration expenses of R88 million, previously included in cell captive business expenses in the segment report, was reallocated to administration expenses in line with the way in which the chief operating decision-maker, being the MMI executive committee, monitors and evaluates the performance of the Momentum Employee Benefits segment.

The above reclassifications had the following impact:

	As previously reported Rm	Reclassi-fication Rm	Restated 2014 Rm
Segmental report			
Momentum Employee Benefits			
Administration expenses	**1 338**	88	**1 426**
Cell captive expenses	**459**	(88)	**371**
Shareholder capital			
Administration expenses	**531**	(334)	**197**
Reconciling items			
Administration expenses	**359**	334	**693**

- Reinsurance contract liabilities of R202 million, previously shown with reinsurance contract assets, have been grossed up and disclosed separately. This restatement was deemed necessary in order to improve comparability between periods.

The above reclassification had the following impact:

Statement of financial position			
Reinsurance contract assets	**2 576**	202	**2 778**
Reinsurance contract liabilities	**–**	202	**202**

Also refer to disclosure in notes 8, 20 and 48.

- The financial asset disclosure was refined in the current year to better align to the group's asset accounting policies, resulting in R4.9 billion of funds on deposit reclassified to debt securities.

The above reclassification had the following impact:

Notes to the financial statements			
Securities designated at fair value through income			
Debt securities – other debt instruments – unlisted	**24 224**	4 937	**29 161**
Funds on deposit and other money market instruments	**29 878**	(4 937)	**24 941**

The assets that were reclassified are all level 2 and have a credit rating of AA.

Interest rate risk			
Debt securities			
Cash flow interest rate risk	**29 136**	2 609	**31 745**
Fair value interest rate risk	**51 335**	2 328	**53 663**
Funds on deposit and other money market instruments			
Cash flow interest rate risk	**25 949**	(4 937)	**21 012**

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STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2015

	2015 Rm	2014 Rm	Notes
ASSETS			
Equipment[1]	–	–	2
Interest in subsidiary companies	21 137	19 969	3
Financial instruments	1 205	1 887	
Designated at fair value through income	–	1 329	4
Loans and receivables	1 205	558	5
Current income tax asset	–	1	12.1
Cash and cash equivalents	69	260	6
Total assets	22 411	22 117	
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital and share premium	17 563	17 543	7
Other components of equity	55	55	
Retained earnings	4 414	3 996	
Total equity	22 032	21 594	
LIABILITIES			
Financial instruments	293	313	
Amortised cost	293	313	8
Employee benefit obligations	23	28	10
Other payables	62	182	11
Current income tax liability	1	–	12.1
Total liabilities	379	523	
Total equity and liabilities	22 411	22 117	

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

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2015

	2015 Rm	2014 Rm	Notes
Investment income	3 811	3 388	13
Net realised and fair value gains	35	299	14
Net income	3 846	3 687	
Impairment (reversals)/expenses	(28)	162	15
Employee benefit expenses	53	73	16
Other expenses	232	211	17
Expenses	257	446	
Results of operations	3 589	3 241	
Finance costs	(44)	(45)	18
Profit before tax	3 545	3 196	
Income tax	(20)	(7)	12.2
Earnings for year attributable to owners of the company	3 525	3 189	

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2015

	2015 Rm	2014 Rm
Earnings for year	3 525	3 189
Other comprehensive income for year, net of tax	–	–
Total comprehensive income for year attributable to owners of the company	3 525	3 189

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2015

	Share capital Rm	Retained earnings Rm	Other components of equity Rm	Total attributable to owners of the company Rm	Notes
Balance at 1 July 2013	17 543	2 895	55	20 493	
Total comprehensive income	–	3 189	–	3 189	
Dividend paid	–	(2 088)	–	(2 088)	
Balance at 1 July 2014	17 543	3 996	55	21 594	
Total comprehensive income	–	3 525	–	3 525	
Dividend paid	–	(3 107)	–	(3 107)	
Conversion of preference shares	20	–	–	20	7
Balance at 30 June 2015	17 563	4 414	55	22 032	

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2015

	2015 Rm	2014 Rm	Notes
Cash flow from operating activities			
Cash utilised in operations	**(249)**	(284)	19.1
Dividends received	**3 723**	3 314	13
Interest received	**85**	74	13
Income tax paid	**(18)**	(6)	19.2
Interest paid	**(44)**	(45)	19.3
Net cash inflow from operating activities	**3 497**	3 053	
Cash flow from investing activities			
Disposal/(Purchase) of assets designated at fair value through income	**1 364**	(45)	
Investments in subsidiary companies	**(110)**	(24)	
Loans to related parties	**(1 835)**	(656)	
Net cash outflow from investing activities	**(581)**	(725)	
Cash flow from financing activities			
Dividends paid	**(3 107)**	(2 088)	
Net cash outflow from financing activities	**(3 107)**	(2 088)	
Net cash flow	**(191)**	240	
Cash and cash equivalents at beginning	**260**	20	
Cash and cash equivalents at end	**69**	260	6

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.

		2015 Rm	2014 Rm
2	**EQUIPMENT**		
	Cost	1	1
	Accumulated depreciation	(1)	(1)
	Carrying amount[1]	–	–

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

Equipment comprises furniture and fittings and computer equipment.

		2015 Rm	2014 Rm
3	**INTEREST IN SUBSIDIARY COMPANIES**		
	Cost less impairment	19 659	19 549
	Loans to subsidiary companies (Annexure A)	1 478	420
		21 137	19 969
	Opening balance	19 969	19 923
	Cost of interest in subsidiaries acquired	110	24
	Plus: reversal of impairment charge	136	–
	Less: impairment charge	–	(8)
	Movements in loans to subsidiary companies	922	30
	Closing balance	21 137	19 969

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.

Interest in subsidiaries acquired

Metropolitan International Holdings (Pty) Ltd (MIH): The company acquired additional shares in MIH for R70 million during the current year (R12 million during the prior year).

MMI Strategic Investments (Pty) Ltd (MMISI): In the prior year the MMI Group Ltd shares in MMISI were transferred to MMI Holdings Ltd at a cost of R12 million. The company acquired additional shares in MMISI for R40 million during the current year.

Impairment

The company reversed the impairment of R136 million (2014: impaired R136 million) of the capitalised loan to MMI Finance Company (Pty) Ltd.

The company impaired R8 million of the investment in its subsidiary Momentum Trust Ltd in the prior year.

		2015 Rm	2014 Rm
4	**DESIGNATED AT FAIR VALUE THROUGH INCOME**		
	Equity securities	–	1 329

- Assets designated at fair value through income for equity securities were all open-ended. This category included financial instruments with no fixed maturity date.
- The criteria for designation of assets at fair value through income are disclosed in the group financial statements under the financial instruments accounting policy.
- A schedule of equity securities (for the prior year) is available for inspection at the company's registered office.

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		2015 Rm	2014 Rm
5	**LOANS AND RECEIVABLES**		
	Accounts receivable[1]	**2**	–
	Loans to related parties	**1 202**	557
	Loans to subsidiary companies (Annexure A)	**982**	208
	Less: provision for impairment on loans to subsidiary companies	**(271)**	(163)
	Loans to associates	**11**	11
	Less: provision for impairment on loans to associates	**(3)**	(3)
	Preference shares	**64**	57
	Empowerment partners	**419**	447
	Strategic unsecured loans	**1**	1
		1 205	558
	Current	**1 147**	183
	Non-current	**58**	375
		1 205	558
	[1] Amount in prior year rounds down to less than R1 million.		
	Reconciliation of provision for impairment		
	Opening balance	**166**	148
	Additional provisions for current year (refer to note 15)	**108**	18
	Closing balance	**274**	166

Terms and conditions of material loans

- Loans to subsidiary companies are generally interest-free, unsecured and have no repayment terms.
- The loans to associates include a loan to C Shell 448 (Pty) Ltd for R10 million and is unsecured, has no repayment terms and interest is as agreed between the shareholders, being zero percent for both periods.
- Preference shares:
  - MMI Holdings Ltd acquired preference shares in Eris Property Fund (Pty) Ltd 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 (2014: R6 million). The preference shares have a term of five years from issue date.
- Loans to empowerment partners consist of:
  - a loan of R33 million to Business Venture Investments No 1796 (Pty) Ltd (BVI), a wholly-owned subsidiary of Kagiso Trust Holdings. The loan is interest-free and repayable on written notice by MMI Holdings Ltd or BVI at anytime from 26 February 2016.
  - an unsecured loan of R83 million (2014: R91 million) to a subsidiary of Kagiso Tiso Holdings (Pty) Ltd (KTH), with a repayment date of between five and 10 years from date of issue (January 2005), on which interest is charged at 80% of the prime interest rate.
  - the loans to empowerment partners include R303 million (2014: R323 million) at 30 June 2015, which 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 June 2017.

Impairment

The loans to subsidiary companies were impaired by R108 million (2014: R18 million) in the current year.

		2015 Rm	2014 Rm
6	**CASH AND CASH EQUIVALENTS**		
	Bank and other cash balances	**69**	260
		69	260

7 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

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

Number of shares in issue (million)	2015	2014
Opening balance	**1 570**	1 570
Conversion of preference shares	**2**	–
Closing balance	**1 572**	1 570

Share capital and share premium	Rm	Rm
Opening balance	**17 543**	17 543
Conversion of preference shares	**20**	–
Closing balance	**17 563**	17 543

On 13 November 2014 and 31 March 2015, 1 095 861 and 1 051 194 A3 preference shares, respectively, were converted into ordinary shares.

Further details of the preference shares are disclosed in note 19.1 of the group financial statements.

		2015 Rm	2014 Rm
8	**FINANCIAL LIABILITIES AT AMORTISED COST**		
	Cumulative redeemable convertible preference shares	**293**	313
	Current	**11**	11
	Non-current	**282**	302
		293	313

Details of the cumulative redeemable convertible preference shares are disclosed in note 19.1 of the group financial statements.

		2015 Rm	2014 Rm
9	**DEFERRED INCOME TAX**		
	Deferred tax asset	3	145
	Tax losses and credits	3	145
	Deferred tax liability	(3)	(145)
	Revaluations	(3)	(145)
		–	–
	Movement in deferred tax		
	Balance at beginning	–	–
	Charge to income statement	–	–
	Revaluations	(148)	(55)
	Tax losses and credits	148	55
	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 R14 million (2014: R21 million), relating to a capital loss, has not been recognised due to the uncertainty of recoverability.

		2015 Rm	2014 Rm
10	**EMPLOYEE BENEFIT OBLIGATIONS**		
	Share scheme obligations	15	27
	Leave pay	1	1
	Staff and management bonuses	7	–
		23	28
	Current	16	17
	Non-current	7	11
		23	28
	Cash-settled arrangement – long-term retention scheme		
	Balance at beginning	27	26
	Additional provisions	–	31
	Unutilised amounts reversed	(1)	–
	Benefits paid	(11)	(30)
	Balance at end	15	27

10 **EMPLOYEE BENEFIT OBLIGATIONS** *continued*

MMI share schemes

MMI Long-term Retention Award Scheme (MMI LTRAS)

The purpose of this scheme was to attract, retain, motivate and reward eligible employees who are able to influence the performance of the group and to give such employees an incentive to advance the company's interests for the ultimate benefit of all its stakeholders.

The MMI LTRAS was a phantom scheme in that a participant was not entitled to MMI Holdings Ltd shares but rather to a cash sum from the employer, calculated on the basis of the number of participation units which vested at the fair market price of an MMI share (average of 20 trading days before the vesting date).

The award date was 1 January 2011 and the vesting date was either 1 December 2013 or 1 December 2014.

The cash sum was only paid out if the employee remained in the employ of the company/group for the full vesting period and if certain performance criteria (as determined by the board from time to time) had been met.

MMI Long-term Incentive Plan (MMI LTIP)

Certain key senior staff members were identified as vital to the future success of the company/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 embedded value 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).

	2015 MMI LTIP '000	2014 MMI LTIP '000	2015 MMI LTRAS '000	2014 MMI LTRAS '000
Number of units outstanding				
At beginning of year	**1 843**	1 070	**–**	916
Units granted during year	**347**	567	**–**	–
Units transferred (to)/from other companies	**(108)**	206	**–**	244
Units exercised/released during year	**(299)**	–	**–**	(1 160)
Units cancelled/lapsed during year	**(859)**	–	**–**	–
At end of year	**924**	1 843	**–**	–
Performance units	**650**	1 440		
Retention units	**274**	403		
	924	1 843		
Inputs used in valuation of the MMI share schemes				
Current vesting rate	**100%**	100%		
Share price at reporting date	**R30.15**	R26.18		

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		2015 Rm	2014 Rm
11	**OTHER PAYABLES**		
	Other payables	62	22
	Loans from subsidiary companies (Annexure A)	–	160
		62	182
	Current	62	182

Terms and conditions of loans

The loans from subsidiary companies were interest-free, unsecured and payable on demand.

		2015 Rm	2014 Rm
12	**INCOME TAX**		
12.1	**Current income tax liability/(asset)**		
	Movement in liability/(asset)		
	Balance at beginning	(1)	(2)
	Charged to income statement	20	7
	Paid during year	(18)	(6)
	Balance at end	1	(1)
12.2	**Income tax expense**		
	Current taxation		
	Current year		
	South African normal tax	5	3
	Foreign countries – withholding tax	15	4
		20	7

	2015 %	2014 %
Tax rate reconciliation		
Tax calculated at standard rate of South African tax on earnings	28.0	28.0
Foreign tax	0.4	0.1
Non-taxable items	(30.3)	(27.9)
Non-deductable expenses	2.4	–
Effective rate	0.5	0.2

		2015 Rm	2014 Rm
13	**INVESTMENT INCOME**		
	Designated at fair value through income		
	Dividends received – listed equities	35	36
	Dividends received – subsidiary companies	3 688	3 278
	Interest income	85	74
	Designated at fair value through income	–	1
	Loans and receivables	69	63
	Cash and cash equivalents	16	10
	Other income	3	–
		3 811	3 388
14	**NET REALISED AND FAIR VALUE GAINS**		
	Designated at fair value through income	35	301
	Loss on sale of shares in subsidiary company	–	(2)
		35	299

		2015 Rm	2014 Rm
15	**IMPAIRMENT (REVERSALS)/EXPENSES**		
	Impairment of investments in subsidiary companies	–	8
	Impairment of loans to subsidiary companies	108	18
	Impairment of loans capitalised to subsidiary companies	–	136
	Reversal of impairment of loans capitalised to subsidiary companies	(136)	–
		(28)	162
16	**EMPLOYEE BENEFIT EXPENSES**		
	Salaries	52	38
	Defined contribution retirement fund	1	2
	Share-based payment expenses		
	Cash-settled	(1)	31
	Training costs	1	2
		53	73
	Executive directors' emoluments included above.	38	39
	Details of the staff share schemes are disclosed in note 21 of the group financial statements.		
17	**OTHER EXPENSES**		
	Asset management fees	3	3
	Auditors' remuneration[1]	–	–
	Consulting fees	3	9
	Management fees	169	143
	Marketing costs	3	3
	Office costs	32	19
	Other expenses	17	22
	Company insurance	1	6
	Other indirect taxes	3	3
	Rental expenses	–	1
	Travel expenses	1	2
		232	211
	Non-executive directors' emoluments included in other expenses above.	12	14

[1] Amount rounds down to less than R1 million.

		2015 Rm	2014 Rm
18	**FINANCE COSTS**		
	Interest expense on liabilities at amortised cost		
	Redeemable preference shares	**44**	45
		44	45
19	**CASH FLOW FROM OPERATING ACTIVITIES**		
19.1	**Cash utilised in operations**		
	Profit before tax	**3 545**	3 196
	Adjusted for		
	Dividend received	**(3 723)**	(3 314)
	Interest received	**(85)**	(74)
	Finance costs	**44**	45
	Impairment of loans to and investments in subsidiary companies	**(28)**	162
	Net realised and fair value gains	**(35)**	(301)
	Share-based payment expenses	**(1)**	31
	Changes in operating assets and liabilities		
	Loans and receivables	**(2)**	1
	Employee benefit obligations	**(4)**	(31)
	Other operating liabilities	**40**	1
		(249)	(284)
19.2	**Income tax paid**		
	Due at beginning	**1**	2
	Charged and provided	**(20)**	(7)
	Due at end	**1**	(1)
		(18)	(6)
19.3	**Interest paid**		
	Redeemable preference shares		
	Paid 30 September	**(22)**	(23)
	Paid 31 March	**(22)**	(22)
		(44)	(45)

20 RELATED PARTY TRANSACTIONS

20.1 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 261 of the integrated report. Significant subsidiary companies are listed in Annexure A. Other related parties include Kagiso Tiso Holdings (Pty) Ltd, Rand Merchant Insurance Holdings Ltd (by virtue of its shareholding of 24.5% in MMI Holdings Ltd), directors, key personnel and close members of their families. Refer to note 41.1 in the group financial statements for more details.

20.2 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 41.2 of the group financial statements.

20.3 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 were included in note 5.

20 RELATED PARTY TRANSACTIONS *continued*

20.3 Transactions with related parties *continued*

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

	2015 Rm	2014 Rm
Administrative charges – MMI Group Ltd	**166**	140
Asset management fee expense – Momentum Asset Management (Pty) Ltd	**3**	3
Rental expenses – MMI Group Ltd	**–**	1

Refer to note 41 of the group financial statements for further details on related party transactions with directors and key management personnel.

21 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.

22 CAPITAL COMMITMENTS

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

23 RISK MANAGEMENT POLICIES

Details of financial instruments and risk management strategies are disclosed in note 43 of the group financial statements. The more important financial risks to which the company is exposed are credit risk, equity 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 44 of the group financial statements.

23.1 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.

	2015 Rm	2014 Rm
Assets		
Designated as at fair value through income	**–**	1 329
Equity securities		
Local listed	**–**	1 329
Loans and receivables	**1 205**	558
Loans	**1 203**	558
Accounts receivable[1]	**2**	–
Cash and cash equivalents	**69**	260
Other assets	**21 137**	19 970
Total assets	**22 411**	22 117
Liabilities		
Amortised cost	**293**	313
Cumulative redeemable preference shares	**293**	313
Other payables	**62**	182
Loans from subsidiary companies	**–**	160
Other payables	**62**	22
Other liabilities	**24**	28
Total liabilities	**379**	523

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

23 RISK MANAGEMENT POLICIES *continued*

23.2 The following table provides an analysis of the fair value of financial assets and liabilities not carried at fair value in the statement of financial position.

	2015 Carrying value Rm	2015 Fair value Rm	2014 Carrying value Rm	2014 Fair value Rm
Assets				
Loans and receivables	**1 205**	**1 205**	558	549
Accounts receivable[1]	**2**	**2**	–	–
Loans to subsidiary companies	**711**	**711**	45	45
Loans to associates	**8**	**8**	8	8
Empowerment loans	**419**	**419**	447	438
Preference shares	**64**	**64**	57	57
Strategic loans	**1**	**1**	1	1
Cash and cash equivalents	**69**	**69**	260	260
	1 274	**1 274**	818	809
Liabilities				
Cumulative redeemable preference shares	**293**	**972**	313	903
Other payables	**62**	**62**	182	182
Loans from subsidiary companies	**–**	**–**	160	160
Other payables	**62**	**62**	22	22
	355	**1 034**	495	1 085

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

- For cash and cash equivalents, accounts receivable and other payables, the carrying value approximates fair value due to their short-term nature.
- For loans to subsidiary companies and the loans to associates there are no fixed terms of repayment. When the company is in a position to repay the loan, it will be payable on demand. The carrying value therefore approximates fair value.
- The carrying value of loans to empowerment partners and strategic loans approximates fair value. In the prior year the fair value was the discounted amount of the estimated future cash flows expected to be received. The expected future cash flows were discounted at 12%.
- 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 2015, the expected cash flows were discounted at a current market rate of 11% (2014: 11%). 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 loans from subsidiary companies, the carrying value approximates fair value as they are payable on demand.

23.3 Valuation techniques

The company's in-house valuation experts perform the valuations of financial assets required for financial reporting purposes. Discussions of valuation processes and results are held at least bi-annually, in line with the company's bi-annual reporting dates.

The valuation of the company's assets and liabilities has been classified using a fair value hierarchy that reflects the significance of the inputs used in the valuation. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- 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); and
- 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 input that requires significant adjustment based on unobservable input, 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.

23 RISK MANAGEMENT POLICIES *continued*

23.3 Valuation techniques *continued*

Instruments classified as level 1 have been valued using published price quotations in an active market. Local listed equity securities are classified as level 1 instruments.

23.4 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 50 in the group financial statements.

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

	2015 Rm	2014 Rm
Loans and receivables	1 205	558
Loans	1 203	558
Accounts receivable[1]	2	–
Cash and cash equivalents	69	260
Total assets bearing credit risk	1 274	818

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

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 5.

The assets in the table above are analysed in the table below using Fitch ratings, or the equivalent thereof when Fitch ratings are not available.

	2015 Rm	2014 Rm
Cash and cash equivalents	69	260
AA	69	260
Unrated		
Loans and receivables	1 205	558
Loans	1 203	558
Accounts receivable[1]	2	–
	1 274	818

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

The loans to subsidiary companies were impaired by R108 million (2014: R18 million) in the current year.

23.5 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.

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 June 2017, 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.

Management of liquidity risk

Equipment, interest in subsidiaries and certain loans to subsidiaries are less liquid assets and amount to R22 342 million, 99.7% of total assets (2014: R20 527 million, 92.8%).

The remainder of the assets – R69 million, 0.3% (2014: R1 590 million, 7.2%) – are seen to be liquid and relatively easy to realise.

23 RISK MANAGEMENT POLICIES *continued*

23.5 Liquidity risk *continued*

***Management of liquidity risk** continued*

The following table indicates the maturity analysis of the liabilities.

	Carrying value Rm	Undiscounted cash flows Total Rm	0 to 1 year Rm	1 to 5 years Rm
2015				
Amortised cost				
Cumulative redeemable preference shares	**293**	**378**	**43**	**335**
Other payables	**62**	**62**	**62**	**–**
Other liabilities	**24**	**24**	**17**	**7**
Total liabilities	**379**	**464**	**122**	**342**
2014				
Amortised cost				
Cumulative redeemable preference shares	313	453	46	407
Other payables	182	182	182	–
Other liabilities	28	28	17	11
Total liabilities	523	663	245	418

23.6 Market risk

Introduction

- Market risk is the risk that the fair value on future cash flows of financial instruments will fluctuate as a result of changes in market prices.
- The key components of market risks are equity price risk, interest rate risk and currency risk.

Market risk governance

- Refer to note 49 in the group financial statements for the governance around market risk.

23.6.1 Equity price risk

Equity price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in the marketplace.

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

Refer to note 49 of the group financial statements for how equity risk is managed by the group.

23.6.2 Interest rate risk

Interest rate risk is the risk that the value and/or future cash flows of financial instruments will fluctuate as a result of changes in interest rates.

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.

23 **RISK MANAGEMENT POLICIES** *continued*

23.6 **Market risk** *continued*

23.6.2 **Interest rate risk** *continued*

Instrument class and weighted average rate	2015 Rm	2014 Rm
Loans and receivables – empowerment partners		
Floating rate – weighted average rate 8.5% (2014: 7.3%)	**419**	447
Cash and cash equivalents		
Floating rate – weighted average rate 5% (2014: 5%)	**69**	260
	488	707

23.6.3 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 (2014: equity prices and interest rates) have the most significant effect on earnings and equity. The sensitivity to a change in equity prices by 10% and changes to interest rates by 100 basis points is discussed below.

In the prior year, management identified the risk of a sudden drop in equity market values as the most significant market risk. The equity portfolio was managed with consideration of the market conditions at any given time. If the market values of equity securities decreased by 10% on 30 June 2014, the approximate impact would have been a reduction of R133 million on earnings before tax. An equal and opposite impact would have occured if the market values increase by 10%.

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		Cost		Loans capitalised	
		2015 %	2014 %	2015 Rm	2014 Rm	2015 Rm	2014 Rm
MMI Group Ltd		**100**	100	**18 096**	18 096	**–**	–
Subsidiary companies							
Momentum Finance Company (Pty) Ltd		**100**	100				
Momentum Alternative Insurance Ltd		**100**	100				
Momentum Ability Ltd		**100**	100				
Momentum Medical Scheme Administrators (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 Outcome-Based Solutions (Pty) Ltd *(previously Momentum Managers of Managers (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				
Momentum Interactive (Pty) Ltd		**100**	100				
Metropolitan Odyssey Ltd		**100**	100	**36**	36	**–**	–
Metropolitan International Holdings (Pty) Ltd		**100**	100	**864**	767	**483**	–
Subsidiary companies							
MMI Holdings Namibia Ltd	Namibia	**96.5**	96.5				
Metropolitan Life (Mauritius) Ltd	Mauritius	**70**	70				
Metropolitan Life Zambia Ltd	Zambia	**100**	100				
UBA Metropolitan Life Insurance Ltd	Nigeria	**50**	50				
Metropolitan Life Insurance Kenya Ltd	Kenya	**96**	96				
Cannon Assurance Ltd	Kenya	**96**	–				
Metropolitan Life Insurance Ghana Ltd	Ghana	**100**	96.2				
Metropolitan Life Swaziland Ltd	Swaziland	**67**	67				
Metropolitan Insurance (Swaziland) Ltd	Swaziland	**100**	100				
Metropolitan International Support (Pty) Ltd		**100**	100	**–**	–	**116**	–
Metropolitan Tanzania Life Assurance Company Ltd	Tanzania	**66.7**	66.7				
Subtotal				**18 996**	18 899	**599**	–

Companies *continued*	Country of incorporation, where not South Africa	Interest held 2015 %	Interest held 2014 %	Cost 2015 Rm	Cost 2014 Rm	Loans capitalised 2015 Rm	Loans capitalised 2014 Rm
Subtotal carried forward				**18 996**	18 899	**599**	–
Momentum Mozambique LDA	Mozambique	**66.7**	66.7				
MMI Finance Company (Pty) Ltd		**100**	100	**400**	400	**237**	252
Metropolitan Life International Ltd		**100**	100	**47**	47	**–**	–
Metropolitan Life of Botswana Ltd	Botswana	**100**	75.8	**73**	73	**–**	–
Metropolitan Lesotho Ltd	Lesotho	**100**	100	**120**	120	**–**	–
Momentum Retirement Administrators (Pty) Ltd		**80**	80	**28**	28	**–**	–
MMI Strategic Investments (Pty) Ltd		**100**	–	**52**	12	**–**	–
Subsidiary companies							
Imara S.P Reid (Pty) Ltd		**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							
Euroguard Insurance Company PCC Ltd	Gibraltar	**100**	100				
Momentum Financial Technology Ltd *(previously Blue Speck Financial Ltd)*	United Kingdom	**100**	–				
Financial Partners Ltd	Hong Kong	**100**	–				
Metropolitan Asset Managers Ltd		**100**	100	**23**	23	**–**	–
Metropolitan Collective Investments (RF) (Pty) Ltd		**100**	100	**26**	26	**–**	–
Eris Property Group (Pty) Ltd		**54.3**	54.3	**262**	262	**–**	–
Metropolitan Health (Pty) Ltd		**100**	100	**32**	32	**642**	304
Subsidiary companies							
Metropolitan Health Corporate (Pty) Ltd		**100**	100				
MetHealth (Pty) Ltd		**100**	100				
Metropolitan Health Risk Management (Pty) Ltd		**100**	100				
CareCross (Pty) Ltd		**100**	–				
Global Doctor Networks (Pty) Ltd		**81.2**	–				
Hello Doctor (Pty) Ltd		**100**	–				
Momentum Trust Ltd		**100**	100	**8**	8	**–**	–
Less: impairments				**(408)**	(381)	**–**	(136)
Total interest in subsidiary companies				**19 659**	19 549	**1 478**	420

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MMI Strategic Investments (Pty) Ltd	**324**	–
MMI Infrastructure and Operations (Pty) Ltd	**266**	129
MMI Short-term Insurance Administration (Pty) Ltd	**175**	–
Momentum Medical Scheme Administrators (Pty) Ltd	**132**	–
Metropolitan Capital (Pty) Ltd	**46**	46
MetHealth (Pty) Ltd	**31**	31
MMI Group Ltd	**6**	–
Union Money (Pty) Ltd	**2**	2
	982	208
Less: impairments	**(271)**	(163)
Loans to subsidiary companies	**711**	45
MMI Group Ltd	**–**	(160)
Loans from subsidiary companies	**–**	(160)

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

SIGNIFICANT CIS SUBSIDIARY COMPANIES	Interest held 2015 %	Interest held 2014 %	Carrying value 2015 Rm	Carrying value 2014 Rm
Momentum IF Global Equity Class A USD Fund	**70.4**	77.5	**14 475**	14 120
Momentum MF Global Balanced A USD Fund	**100**	100	**6 832**	7 231
Momentum MF Global Aggressive Sub Fund	**100**	100	**6 108**	6 133
Momentum Money Market Fund	**37.9**	41.1	**3 815**	3 658
Momentum Balanced Fund	**76.5**	72.5	**3 522**	3 204
Momentum MoM Ultra Long-Term Value Fund	**99.9**	99.2	**2 784**	2 402
Momentum MoM High Growth Fund	**100**	99.8	**2 271**	1 966
Momentum Global Growth Fund IC Ltd Class A, Accumulating	**94.7**	*	**2 198**	*
Momentum MoM Macro Value Fund	**100**	99.1	**2 007**	2 199
Momentum MoM Property Equity Fund	**99.9**	99.7	**1 841**	1 354
Momentum MoM Specialist Equity Fund (A)	**100**	100	**1 541**	749
Momentum Best Blend Multifocus Fund of Funds	**99.7**	99.5	**1 469**	1 534
Momentum MoM Emerging Manager Growth Fund	**100**	100	**1 435**	1 122
Momentum IF Global Fixed Income A USD Fund	**97.7**	92.8	**1 429**	1 615
Momentum MoM Real Return Fund	**100**	100	**1 411**	1 604
Momentum MF Global Moderate Sub Fund	**100**	100	**1 178**	967
Momentum IF Global Emerging Markets A USD Fund	**95.7**	89.4	**1 116**	1 141
Momentum Best Blend Balanced Fund of Funds	**75.8**	72.6	**1 066**	826
Ampersand Momentum CPI Plus 4% Fund of Funds	**59.2**	57.4	**916**	845
Ampersand Momentum Equity Fund	**100**	*	**892**	*
Momentum MF International Equity A USD Fund	**100**	100	**855**	951
Momentum Best Blend Specialist Equity Fund (A)	**56.7**	53.4	**764**	620
Momentum Bond Fund	**68.7**	*	**754**	*
Momentum Best Blend Flexible Income Fund	**87.4**	58.8	**750**	539
Momentum International Equity Feeder Fund	**55.1**	*	**726**	*
Ampersand Momentum CPI Plus 2% Fund of Funds	**53.4**	56.5	**677**	657
Momentum Global Managed Fund IC Ltd	**94.7**	95.6	**663**	1 222
Momentum MoM Active Bond Fund (B1)	**100**	100	**653**	590
Momentum Property Fund	**59.6**	*	**624**	*
Momentum Factor 7 Fund of Funds	**69.8**	*	**601**	*
Saffron MET Inflation Linked Bond	**99.9**	*	**534**	*
VPFP International Growth Fund IC Ltd Class B, Accumulating	**69.6**	*	**533**	*
Momentum GF Global Franchise Fund	**98.1**	100	**522**	579
Momentum Global Equity Fund	*****	97.4	*****	1 470
Momentum MoM Emerging Manager Value Fund	*****	100	*****	1 131
Momentum MoM Focused Equity Fund	*****	99.4	*****	921
Momentum GF Global Contrarian Fund	*****	100	*****	754
Momentum Optimal Yield Fund	*****	94.9	*****	572

* Not included in subsidiaries for year

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

	2015 Rm	2014 Rm
Collective investment schemes		
Local and foreign	**122 297**	110 023
Equity	**96 217**	82 792
Interest-bearing	**15 828**	15 919
Property	**5 115**	2 862
Mixed	**3 371**	6 690
Money market	**1 732**	1 760
Commodity	**34**	–
Other unit-linked investments	**22 408**	22 358
Local and foreign		
Equity	**7 595**	7 448
Interest-bearing	**1 981**	2 020
Mixed	**11 691**	10 935
Commodity	**1 141**	1 955
	144 705	132 381
Designated at fair value through income: unit-linked investments	**132 330**	120 477
Investments in associates designated at fair value through income	**12 362**	11 900
Available-for-sale: local unlisted quoted collective investment schemes	**13**	4
	144 705	132 381

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:

Name 2015	Carrying value Rm	% interest held	Nature of relationship	Principal place of business
Fairtree Equity Prescient Fund	1 677	75.8%	Standard investment	Bellville
Truffle Institutional Equity Fund[1]	1 180	67.4%	Standard investment	Hyde Park
Momentum Enhanced Yield Fund	1 038	20.7%	Standard investment	Sandton
2014				
Fairtree Equity Prescient Fund	1 115	80.9%	Standard investment	Bellville
Momentum Enhanced Yield Fund	1 018	18.5%	Standard investment	Sandton

Summarised financial information relating to the associates above:

2015	Fairtree Equity Prescient Fund Rm	Truffle Institutional Equity Fund[1] Rm	Momentum Enhanced Yield Fund Rm
Current assets	61	56	556
Non-current assets	1 965	1 412	4 594
Current liabilities	81	13	109
Non-current liabilities	–	1 455	4 662
Revenue	367	268	437
Earnings	306	230	379
Dividends received from associate	40	18	–

2014	Fairtree Equity Prescient Fund Rm	Momentum Enhanced Yield Fund Rm
Current assets	51	5
Non-current assets	1 349	5 493
Current liabilities	23	95
Revenue	63	458
Earnings	62	413
Dividends received from associate	22	6

1 This associate was not considered to be significant in the prior year.

Other unconsolidated structured entities

The table below provides information on significant other unconsolidated structured entities in which the group holds an interest. The maximum exposure to loss is the carrying value of the assets held.

Name of entity	Investment type	Nature and purpose of business	How the entity is financed?	Carrying value[1] 2015 Rm	Carrying value[1] 2014 Rm	Income received[2] 2015 Rm	Income received[2] 2014 Rm
iNguza Investments (Pty) Ltd	Interest-bearing notes	Issuing of commercial paper and other debt instruments to investors in order to acquire the rights and obligations of third parties underwritten loan agreements and/or other securities meeting the eligibility criteria established by the entity	Issuing of debt instruments	**1 034**	1 093	**72**	37
Nqaba Finance 1 (Pty) Ltd	Floating rate note	Securitisation vehicle set up by Eskom Finance Company to finance mortgage loans	Funding received from the South African capital market	**474**	511	**22**	30
Thekwini Fund 9 (Pty) Ltd[3]	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	**633**	–	**34**	–
Superdrive Investments (RF) Ltd[3]	Floating rate note	Asset-backed securitisation set up by Standard Bank Group and BMW Financial Services	Funding received from local institutional investors	**537**	–	**34**	–
				2 678	1 604	**162**	67

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 These listed securitisations were not considered significant in the prior year.
4 The group has not sponsored any significant unconsolidated structured entities in which it holds an interest.

SHAREHOLDER	Number of shareholders	% of issued share capital	Shares held (million)
Non-public			
Directors (excluding shares in staff share scheme)	8	0.2	2
Kagiso Tiso Holdings (Pty) Ltd	2	7.1	114
RMI Holdings Ltd	1	24.5	393
Government Employees Pension Fund	5	10.2	163
Public			
Private investors	23 609	3.9	63
Pension funds	263	2.7	44
Collective investment schemes and mutual funds	4 310	38.1	611
Banks and insurance companies	146	13.3	214
Total	28 344	100.0	1 604

An estimated 457 million shares (2014: 423 million shares) representing 28.5% (2014: 26.4%) 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	23 650	83.4	25	1.6
5 001 – 10 000	1 943	6.9	14	0.9
10 001 – 50 000	1 805	6.4	39	2.4
50 001 – 100 000	346	1.2	25	1.5
100 001 – 1 000 000	473	1.7	141	8.8
1 000 001 and more	127	0.4	1 360	84.8
Total	28 344	100.0	1 604	100.0

BENEFICIAL OWNERS	Shares held (million)	% of issued share capital
RMI Holdings Ltd	393	24.5
Government Employees Pension Fund	163	10.2
Kagiso Tiso Holdings (Pty) Ltd	114	7.1
FirstRand Empowerment Trust	47	2.9
Total	717	44.7

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 2015, are disclosed.

STOCK EXCHANGE PERFORMANCE

	2015	2014
12 months		
Value of listed shares traded (rand million)	**19 153**	15 362
Volume of listed shares traded (million)	**642**	637
Shares traded (Percentage of average listed shares in issue)	**41**	41
Value of shares traded – life insurance (J857 – Rbn)	**230**	165
Value of shares traded – top 40 index (J200 – Rbn)	**3 464**	3 069
Trade prices		
Highest (cents per share)	**3 475**	2 783
Lowest (cents per share)	**2 502**	2 039
Last sale of period (cents per share)	**3 015**	2 625
Percentage (%) change during period	**15**	18
Percentage (%) change – life insurance sector (J857)	**11**	28
Percentage (%) change – top 40 index (J200)	**–**	31
30 June		
Price/diluted core headline earnings (segmental) ratio	**12.6**	11.6
Dividend yield % (dividend on listed shares)	**5.1**	5.4
Dividend yield % – top 40 index (J200)	**3.0**	2.6
Total shares issued (million)		
Listed on JSE	**1 572**	1 570
Treasury shares held on behalf of contract holders	**(14)**	(14)
Basic number of shares in issue	**1 558**	1 556
Treasury shares held on behalf of contract holders	**14**	14
Convertible redeemable preference shares	**32**	34
Diluted number of shares in issue[1]	**1 604**	1 604
Market capitalisation at end (Rbn)[2]	**48**	42
Percentage (%) of life insurance sector	**13**	12

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.